

Edgar Filing: EPLUS INC - Form 10-Q/A

EPLUS INC
Form 10-Q/A
February 23, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarter ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES
EXCHANGE ACT OF 1934

For the transition period from ____ to ____ .

Commission file number: 0-28926

ePlus inc.

(Exact name of registrant as specified in its charter)

Delaware 54-1817218

(State or other jurisdiction of (I.R.S. Employer incorporation
or organization) Identification No.)

13595 Dulles Technology Drive, Herndon, VA 20171-3413
(Address, including zip code, of principal offices)

Registrant's telephone number, including area code: (703) 984-8400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock outstanding as of November 9, 2004, was 8,954,258.

ePlus inc.

Quarterly Report on Form 10-Q/A
For the Quarter Ended September 30, 2004

Introductory Note

This amendment is being filed to reflect the restatement of the Company's condensed consolidated financial statements as discussed in Note 9 thereto and other information related to such restated financial statements. Except for Items 1, 2, and 4 of Part I and Item 6 of Part II, no other information included in the original Form 10-Q is amended by this Form 10-Q/A.

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ePlus inc. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)

	As of March 31, 2004	As of
<hr/>		
ASSETS		
Cash and cash equivalents	\$ 25,155,011	\$
Accounts receivable, net of allowance for doubtful accounts of \$1,584,358 and \$2,011,073 as of March 31, 2004 and September 30, 2004, respectively	51,188,640	
Notes receivable	51,986	
Inventories	899,748	
Investment in leases and leased equipment - net	186,667,141	
Property and equipment - net	5,230,473	
Goodwill	20,243,310	
Other assets	4,765,781	
	<hr/>	
TOTAL ASSETS	\$ 294,202,090	\$
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable - equipment	\$ 9,993,077	\$
Accounts payable - trade	32,140,670	
Salaries and commissions payable	583,934	
Accrued expenses and other liabilities	11,983,798	
Income taxes payable	-	
Recourse notes payable	5,863	
Non-recourse notes payable	117,857,208	
Deferred tax liability	10,053,226	
	<hr/>	
Total Liabilities	182,617,776	
COMMITMENTS AND CONTINGENCIES	-	
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued or outstanding	-	
Common stock, \$.01 par value; 25,000,000 shares authorized; 10,717,242 issued and 8,939,958 outstanding at March 31, 2004 and 10,759,142 issued and 8,942,858 outstanding at September 30, 2004	\$ 107,172	\$

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Additional paid-in capital	64,339,988
Treasury Stock, at cost, 1,777,284 and 1,816,284 shares, respectively	(17,192,886)
Retained earnings	64,211,473
Accumulated other comprehensive income - foreign currency translation adjustment	118,567
Total Stockholders' Equity	111,584,314
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 294,202,090

See Notes to Condensed Consolidated Financial Statements.

(1) As restated, see Note 9.

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ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months En September 30 2003	
REVENUES		
Sales of product	\$ 70,380,144	\$
Lease revenues	12,910,616	
Fee and other income	2,345,971	
TOTAL REVENUES	85,636,731	
COSTS AND EXPENSES		
Cost of sales, product	\$ 62,364,436	\$
Direct lease costs	2,396,770	
Professional and other fees	820,813	
Salaries and benefits	9,999,685	

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General and administrative expenses	3,662,850	
Interest and financing costs	1,826,595	

TOTAL COSTS AND EXPENSES	81,071,149	

EARNINGS BEFORE PROVISION FOR INCOME TAXES	4,565,582	

PROVISION FOR INCOME TAXES	1,860,705	

NET EARNINGS	\$ 2,704,877	\$
	=====	
NET EARNINGS PER COMMON SHARE - BASIC	\$ 0.29	\$
	=====	
NET EARNINGS PER COMMON SHARE - DILUTED	\$ 0.27	\$
	=====	
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	9,466,651	
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	10,179,738	

See Notes to Condensed Consolidated Financial Statements.

(1) As restated, see Note 9.

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	2003	Six Months ended September 30
REVENUES		
Sales of product	\$ 135,675,931	\$
Lease revenues	25,286,163	
Fee and other income	4,542,155	
TOTAL REVENUES	165,504,249	
COSTS AND EXPENSES		
Cost of sales, product	\$ 119,876,360	\$
Direct lease costs	4,744,900	
Professional and other fees	1,336,858	
Salaries and benefits	20,146,877	
General and administrative expenses	7,479,303	
Interest and financing costs	3,572,943	
TOTAL COSTS AND EXPENSES	157,157,241	
EARNINGS BEFORE PROVISION FOR INCOME TAXES	8,347,008	
PROVISION FOR INCOME TAXES	3,338,803	
NET EARNINGS	\$ 5,008,205	\$
NET EARNINGS PER COMMON SHARE - BASIC	\$ 0.53	\$
NET EARNINGS PER COMMON SHARE - DILUTED	\$ 0.50	\$
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	9,461,047	
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	10,047,323	

See Notes to Condensed Consolidated Financial Statements.

(1) As restated, see Note 9.

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ePlus inc. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

	2003 (1)	Six Months En September 3
Cash Flows From Operating Activities:		
Net earnings	\$ 5,008,205	\$
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,014,284	
Write-off of non-recourse debt	-	
Provision for credit losses	138,275	
Deferred taxes	1,759,111	
Payments from lessees directly to lenders	(897,297)	
Loss (gain) on disposal of property and equipment	187,692	
Loss (gain) on disposal of operating lease equipment	138,160	
Changes in:		
Accounts receivable	(15,190,155)	
Notes receivable	(17,397)	
Inventories	(728,555)	
Investment in leases and leased equipment - net	(3,943,194)	
Other assets	(456,507)	
Accounts payable - equipment	2,900,923	
Accounts payable - trade	1,572,886	
Salaries and commissions payable, accrued expenses and other liabilities	313,356	
Net cash used in operating activities	\$ (5,200,213)	\$
Cash Flows From Investing Activities:		
Purchases of operating lease equipment	\$ (11,360,883)	\$
Purchases of property and equipment	(932,604)	
Proceeds from sale of operating lease equipment	153,010	
Cash used in acquisitions	-	
Net cash used in investing activities	\$ (12,140,477)	\$

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ePlus inc. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
 (UNAUDITED)

	Six Months En September 3	
	2003 (1)	

Cash Flows From Financing Activities:		
Borrowings:		
Non-recourse	\$ 45,495,688	\$
Repayments:		
Non-recourse	(29,376,795)	
Recourse	(2,736,298)	
Purchase of treasury stock	(2,278,747)	
Proceeds from issuance of capital stock, net of expenses	503,234	
Net borrowings on lines of credit	607,500	

Net cash provided by financing activities	12,214,582	

Effect of Exchange Rate Changes on Cash	51,321	

Net Decrease in Cash and Cash Equivalents	(5,074,787)	
Cash and Cash Equivalents, Beginning of Period	27,784,090	

Cash and Cash Equivalents, End of Period	\$ 22,709,303	\$
	=====	

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Supplemental Disclosures of Cash-Flow Information:

Cash paid for interest	\$ 1,773,544	\$
	=====	=====
Cash paid for income taxes	\$ 312,353	\$
	=====	=====

See Notes To Condensed Consolidated Financial Statements.

(1) As restated, see Note 9.

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ePlus inc. AND SUBSIDIARIES NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements of ePlus inc. and subsidiaries (the "Company") included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. All adjustments made were normal, recurring accruals. Certain prior period amounts have been reclassified to conform to the current period's presentation.

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Certain information and note disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to SEC rules and regulations.

For the six months ended September 30, 2004 and 2003, accumulated other comprehensive income (decreased) increased (\$33,842) and \$7,987, respectively, resulting in total comprehensive income of \$4,196,485 and \$5,016,192, respectively.

These interim financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K (No. 0-28926) for the year ended March 31, 2004 (the "Company's 2004 Form 10-K"). Operating results for the interim periods are not necessarily indicative of results for an entire year.

2. RECLASSIFICATION OF CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Based on concerns raised by the staff of the Securities and Exchange Commission ("SEC") in guidance posted on the SEC website on February 15, 2005 related to the previous presentation of the cash flow effects of long-term customer receivables, including sales-type lease receivables, management has determined it is appropriate to change the classification of all cash flows related to its direct financing and sales-type lease transactions within the condensed consolidated statements of cash flows. When the Company finances equipment relating to direct financing and sales-type lease transactions, generally no cash is initially received from the customer and, therefore, the sale is recorded in the investment in lease receivables. Increases in investment in lease receivables due to new sales and decreases due to cash payments are both reflected in operating activities. All intercompany transactions have been eliminated and, therefore, there are no intercompany cash flows reflected in the condensed consolidated statements of cash flows.

Historically, the Company classified the cash flows from direct financing and sales-type leases as investing activities in the condensed consolidated statement of cash flows. The Company is now classifying these cash flows as operating activities in the condensed consolidated statements of cash flows. Therefore, no cash related to direct financing or sales-type leases is classified as investing activities.

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The condensed consolidated statement of cash flows has been adjusted to reflect the reclassification of these cash flows as investing activities as follows:

Condensed Consolidated Statements of Cash Flows

	Six Months Ended September 30, 2003		Six Months
	As Previously Reported	As Restated	As Previ Reporte
Cash Flows From Operating Activities			
Investment in leases and leased equipment - net	\$ -	\$ (3,943,194)	\$ -
Net cash used in operating activities	(347,706)	(5,200,213)	(527,34)
Cash Flows from Investing Activities			
Increase in investment in direct financing and sales-type leases - net	(3,943,194)	-	(13,610,4)
Net cash used in investing activities	(16,992,984)	(12,140,477)	(28,595,5)

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In addition, in performing the reclassifications required by the SEC guidance as described above, the Company also discovered certain amounts relating to property and equipment, and operating leases which needed to be reclassified between operating and investing activities. This correction increased net cash used in operating activities and decreased net cash used in investing activities by \$909,313 and \$351,119 for the six months ended September 30, 2003 and 2004, respectively (see Note 9). Furthermore, certain amounts related to its borrowings on lines of credit, which are included in financing activities, were presented showing borrowings and repayments separately and are now presented net.

3. STOCK-BASED COMPENSATION

As of September 30, 2004, the Company had three stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations issued by the Financial Accounting Standards Board. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," to stock-based employee compensation:

	Three Months Ended September 30, (unaudited)		Six Mon Septe (una
	2003	2004	2003
Net earnings, as reported	\$ 2,704,877	\$ 2,055,327	\$ 5,008,205
Stock-based compensation expense	(632,394)	(235,942)	(1,264,788)
Net earnings, pro forma	\$ 2,072,483	\$ 1,819,385	\$ 3,743,417
Basic earnings per share, as reported	\$0.29	\$0.23	\$0.53
Basic earnings per share, pro forma	\$0.22	\$0.20	\$0.40
Diluted earnings per share, as reported	\$0.27	\$0.22	\$0.50
Diluted earnings per share, pro forma	\$0.20	\$0.20	\$0.37

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Under SFAS No. 123, the fair value of stock-based awards to employees is derived through the use of option-pricing models that require a number of subjective assumptions. The Company's calculations were made using the Black-Scholes option-pricing model with the following weighted average assumptions:

Six Months Ended
September 30,

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	2003	2004
	-----	-----
Options granted under the Incentive Stock-Option Plan:		
Expected life of option	5 years	5 years
Expected stock price volatility	70.46%	71.18%
Expected dividend yield	0%	0%
Risk-free interest rate	2.96%	3.39%

4. INVESTMENTS IN LEASES AND LEASED EQUIPMENT - NET

Investments in leases and leased equipment - net consists of the following:

	March 31, 2004	As of S
		(In Thousands)

Investment in direct financing and sales-type leases-net	\$ 166,790	
Investment in operating lease equipment-net	19,877	

	\$ 186,667	
	=====	

The Company's net investment in leases is collateral for non-recourse and recourse equipment notes.

INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES

The Company's investment in direct financing and sales-type leases consists of the following:

	March 31, 2004	As of S
		(In Thousands)

Minimum lease payments	\$ 161,008	
Estimated unguaranteed residual value	25,025	
Initial direct costs, net of amortization (1)	2,342	
Less: Unearned lease income	(18,440)	
Reserve for credit losses	(3,145)	

Investment in direct financing and sales-type leases, net	\$ 166,790	
	=====	

(1) Initial direct costs are shown net of amortization of \$2,184 and \$2,304 at March 31 and September 30, 2004, respectively.

INVESTMENT IN OPERATING LEASE EQUIPMENT

Investment in operating lease equipment represents leases that do not qualify as direct financing leases or are leases that are short-term renewals on month-to-month status. The components of the net investment in operating lease equipment are as follows:

	March 31, 2004	As of S
--	----------------	------------

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(In Thousands)

Cost of equipment under operating leases	\$ 27,985
Less: Accumulated depreciation and amortization	(8,108)
Investment in operating lease equipment, net	\$ 19,877

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5. PROVISION FOR CREDIT LOSSES

As of March 31 and September 30, 2004, the Company's provisions for credit losses were \$4,730,015 and \$5,156,728, respectively. The Company's provisions for credit losses are segregated between our accounts receivable and our lease assets as follows (in thousands):

	Accounts Receivable	Investment in Direct- Financing Leases
Balance April 1, 2003	\$ 3,346	\$ 3,407
Provision for bad debts	23	24
Write-offs and other	(1,785)	(285)
Balance March 31, 2004	1,584	3,146
Provision for bad debts	469	
Write-offs and other	(42)	
Balance September 30, 2004	\$ 2,011	\$ 3,146

6. SEGMENT REPORTING

The Company manages its business segments on the basis of the products and services offered. The Company's reportable segments consist of its traditional financing business unit and its technology sales business unit. The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. The technology sales business unit sells information technology ("IT") equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides Internet-based business-to-business supply-chain-management solutions for information technology and other operating resources. The Company evaluates segment performance on the basis of segment net earnings.

Both segments utilize the Company's proprietary software and services throughout the organization. Sales and services and related costs of e-procurement software are included in the technology sales business unit. Service fees generated by our proprietary software and services are also included in the technology sales business unit.

The accounting policies of the financing and technology sales business units are the same as those described in Note 1, "Organization and Summary of Significant Accounting Policies," in the Company's 2004 Form 10-K. Corporate overhead expenses are allocated on the basis of revenue volume, estimates of actual time spent by corporate staff, and asset utilization, depending on the type of

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expense.

Certain revenues, expenses, and assets for the six months ended and as of September 30, 2003 are shown differently than as previously reported to conform with the allocation method used in the quarter ended September 30, 2004 for certain amounts related to ePlus inc., the parent company.

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	Financing Business Unit	Technology Sales Business Unit
	-----	-----
Three months ended September 30, 2003		
Sales of product	\$ 640,306	\$ 69,739,838
Lease revenues	12,910,616	-
Fee and other income	738,698	1,607,273
	-----	-----
Total revenues	14,289,620	71,347,111
Cost of sales	532,053	61,832,383
Direct lease costs	2,396,770	-
Selling, general and administrative expenses	5,894,834	8,588,514
	-----	-----
Segment earnings	5,465,963	926,214
Interest expense	1,759,100	67,495
	-----	-----
Earnings before income taxes	\$ 3,706,863	\$ 858,719
	=====	=====
Assets as of September 30, 2003	\$ 229,155,873	\$ 65,186,766
	=====	=====
Three months ended September 30, 2004		
Sales of product	\$ 544,077	\$ 137,520,925
Lease revenues	11,911,090	-
Fee and other income	483,753	2,725,853
	-----	-----
Total revenues	12,938,920	140,246,778
Cost of sales	760,765	122,581,782
Direct lease costs	2,930,271	-
Selling, general and administrative expenses	5,637,582	16,491,044
	-----	-----
Segment earnings	3,610,302	1,173,952
Interest expense	1,162,294	138,354
	-----	-----
Earnings before income taxes	\$ 2,448,008	\$ 1,035,598
	=====	=====
Assets as of September 30, 2004	\$ 236,581,119	\$ 117,114,397
	=====	=====
Six months ended September 30, 2003		
Sales of product	\$ 1,419,177	\$ 134,256,754
Lease revenues	25,286,163	-
Fee and other income	1,409,599	3,132,556
	-----	-----
Total revenues	28,114,939	137,389,310
Cost of sales	1,279,855	118,596,505
Direct lease costs	4,744,900	-
Selling, general and administrative expenses	11,332,183	17,630,855
	-----	-----

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Segment earnings	10,758,001	1,161,950
Interest expense	3,404,088	168,855
	-----	-----
Earnings before income taxes	\$ 7,353,913	\$ 993,095
	=====	=====
Assets as of September 30, 2003	\$ 229,155,873	\$ 65,186,766
	=====	=====
Six months ended September 30, 2004		
Sales of product	\$ 1,740,804	\$ 228,293,060
Lease revenues	24,066,831	-
Fee and other income	1,435,612	4,348,125
	-----	-----
Total revenues	27,243,247	232,641,185
Cost of sales	1,626,248	203,877,084
Direct lease costs	5,607,270	-
Selling, general and administrative expenses	11,053,835	27,857,163
	-----	-----
Segment earnings	8,955,894	906,938
Interest expense	2,565,961	126,824
	-----	-----
Earnings before income taxes	\$ 6,389,933	\$ 780,114
	=====	=====
Assets as of September 30, 2004	\$ 236,581,119	\$ 117,114,397
	=====	=====

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7. EARNINGS PER SHARE

The weighted average number of common shares used in determining basic and diluted net income per share for the three and six months ended September 30, 2003 and 2004 are as follows:

	Three Months Ended September 30,		
	2003	2004	2004
	-----	-----	-----
Basic common shares outstanding	9,466,651	8,922,104	9,466,651
Common stock equivalents	713,087	330,092	843,179
	-----	-----	-----
Diluted common shares outstanding	10,179,738	9,252,196	10,309,830
	=====	=====	=====

8. COMMITMENTS AND CONTINGENCIES

The Company is not a defendant in any material legal proceedings. We are engaged in ordinary and routine litigation incidental to our business. While we cannot predict the outcome of these various legal proceedings, it is management's opinion that the resolution of these matters will not have a material adverse effect on our financial position or results of operations.

9. RESTATEMENT OF LEASE REVENUES AND CASH FLOWS

Subsequent to the issuance of the Company's September 30, 2004 financial statements on Form 10-Q, the Company's management determined that an error was made in recording lease revenues. As a result of this error and its effects, the condensed balance sheet, statements of earnings and statement of cash flows have been restated from the amounts previously reported. The correction reduced the

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net earnings from \$2,493,931 to \$2,055,327 for the three months ended September 30, 2004 and from \$4,668,931 to \$4,230,327 for the six months ended September 30, 2004. Amounts have been restated as follows:

Condensed consolidated balance sheet

	At September 30, 2004	
	As Previously Reported	As Restated
	-----	-----
Notes receivable	\$ 1,093,383	\$ 349,988
Total assets	354,438,911	353,695,516
Income taxes payable	428,202	123,411
Total liabilities	238,338,852	238,034,061
Retained earnings	68,880,405	68,441,801
Total stockholders' equity	116,100,059	115,661,455
Total liabilities and stockholders' equity	354,438,911	353,695,516

Condensed consolidated statements of earnings

	For the Three Months Ended September 30, 2004		For the Septe
	As Previously Reported	As Restated	As Previous Reported
	-----	-----	-----
Lease revenues	\$ 12,654,485	\$ 11,911,090	\$ 24,810,2
Total revenues	153,929,093	153,185,698	260,627,8
Earnings before provision for income taxes	4,227,001	3,483,606	7,913,4
Provision for income taxes	1,733,070	1,428,279	3,244,5
Net earnings	2,493,931	2,055,327	4,668,9
Net earnings per common share - basic	0.28	0.23	0.
Net earnings per common share - diluted	0.27	0.22	0.

Condensed consolidated statement of cash flows

	For the Six Months Ended September 30, 2004	
	As Previously Reported	As Restated
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 4,668,931	\$ 4,230,327
Changes in other receivables	(1,041,397)	(298,002)
Changes in salaries and commissions payable, accrued expenses and other liabilities	7,084,471	6,779,680

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In addition, in performing the reclassifications required by the SEC guidance as described in Note 2, the Company also discovered certain amounts relating to property and equipment, and operating leases which needed to be reclassified between operating and investing activities. For the six months ended, September 30, 2003, this correction increased net cash used in operating activities and decreased net cash used in investing activities by \$909,313. For the six months ended September 30, 2004, this correction increased cash used in operating activities and decreased cash used in investing activities by \$351,119. Amounts have been restated as follows:

Condensed consolidated statements of cash flows

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	For the six months ended September 30, 2003		For the Sept
	As previously reported	As restated	As previo report
Cash Flows From Operating Activities:			
Loss (gain) on disposal of property and equipment	\$ 1,235,165	\$ 187,692	\$
Loss (gain) on operating lease equipment	-	138,160	
Cash Flows From Investing Activities:			
Purchases of operating lease equipment	-	-	(13,427)
Purchases of property and equipment	(1,980,077)	(932,604)	
Proceeds from sales of operating equipment	291,170	153,010	4,064

Furthermore, certain amounts related to its borrowings on lines of credit, which are included in financing activities, were presented showing borrowings and repayments separately and are now presented net.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of results of operations and financial condition of the Company should be read in conjunction with the condensed consolidated financial statements and the related notes included in Item 1 of this report, and the Company's 2004 Form 10-K.

As discussed in Note 9 to the condensed consolidated financial statements, lease revenues for the three and six months ended September 30, 2004 have been restated, and the accompanying management's discussion and analysis of results of operations and financial condition give effect to that restatement. Furthermore, reclassifications have also been made between investing and operating activities on the statements of cash flows and are therefore different than previously reported.

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Overview

Certain statements contained herein are not based on historical fact, but are forward-looking statements that are based upon numerous assumptions about future conditions that may not occur. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Our ability to consummate such transactions and achieve such events or results is subject to certain risks and uncertainties. These risks and uncertainties include, but are not limited to, the existence of demand for, and acceptance of, the Company's services, economic conditions, the impact of competition and pricing, results of financing efforts and other factors affecting the Company's business that are beyond our control. The Company undertakes no obligation and does not intend to update, revise or otherwise publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances. See "Factors That May Affect Future Operating Results."

Our results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, customer demand for our products and services, supplier costs, interest rate fluctuations and differences between estimated residual values and actual amounts realized related to the equipment we lease. Operating results could also fluctuate as a result of the sales of equipment in our lease portfolio prior to the expiration of the lease term to

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the lessee or to a third party. Such sales of leased equipment prior to the expiration of the lease term may have the effect of increasing revenues and net earnings during the period in which the sale occurs, and reducing revenues and net earnings otherwise expected in subsequent periods. See "Potential Fluctuations in Quarterly Operating Results."

We currently derive the majority of our revenue from sales and financing of information technology and other assets. We have expanded our product and service offerings under the Enterprise Cost Management ("eECM") model which represents the continued evolution of our original implementation of ePlus e-commerce products entitled ePlusSuite. Our eECM model is our framework for combining IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services.

Our total sales and marketing staff consisted of approximately 213 people as of September 30, 2004, at our 37 current locations, of which 36 are in the United States and 1 in Canada.

On May 15, 2001, we acquired from ProcureNet, Inc. the e-commerce procurement software asset, products, and software technology for cleaning and categorizing product descriptions for e-commerce catalogues. On October 10, 2003, the Company acquired the software business of Digital Paper Corporation, a provider of document access and collaboration solutions. On May 28, 2004, the Company purchased certain assets and assumed certain liabilities of Manchester Technologies Inc. The acquisition will add to our IT reseller and professional services business. Approximately 125 former Manchester Technologies, Inc. personnel have been hired by ePlus as part of the transaction and are located in four established offices in metropolitan New York, South Florida and Baltimore. These combined software products, IT reseller activities and services, and the associated expenses with these business acquisitions have substantially increased our expenses, and the ability to sell these products and services is expected to fluctuate depending on the customer demand for these products and services, which to date is still unproven. The products and services from these acquisitions are included in our technology sales business unit segment, and are combined with our other sales of IT products and services. Our leasing and financing activities are included in our financing business unit segment in our financial statements.

As a result of our acquisitions and changes in the number of sales locations, the Company's historical results of operations and financial position may not be indicative of its future performance over time.

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CRITICAL ACCOUNTING POLICIES

SALES OF PRODUCT. Sales of product include the following types of transactions: (1) sales of new or used equipment which are not subject to any type of lease; (2) service revenue in our technology sales business unit; (3) sales of off-lease equipment to the secondary market; and (4) sales of procurement software. Sales of new or used equipment are recognized upon shipment and sales of off-lease equipment are recognized when constructive title passes to the purchaser. Service revenue is recognized as the related services are rendered.

SOFTWARE SALES AND RELATED COSTS. Revenue from sales of procurement software is recognized in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended by SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2 With Respect to Certain Transactions." We recognize revenue when all the following criteria exist: there is persuasive evidence that an arrangement exists, delivery has occurred, no

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significant obligations by the Company related to services essential to the functionality of the software remain, the sales price is fixed and determinable, and it is probable that collection will occur. Our accounting policy requires that revenue earned and related costs incurred on software arrangements involving multiple elements be allocated to each element on the relative fair values of the elements and recognized when earned. Revenue related to maintenance and support is recognized ratably over the maintenance term (usually one year) and revenue allocated to training, implementation or other services is recognized as the services are performed.

SALES OF LEASED EQUIPMENT. Sales of leased equipment consist of sales of equipment subject to an existing lease, under which we are lessor, including any underlying financing related to the lease. Sales of equipment subject to an existing lease are recognized when constructive title passes to the purchaser.

The manner in which lease finance transactions are characterized and reported for accounting purposes has a major impact upon reported revenue and net earnings. Lease accounting methods critical to our business are discussed below.

We classify our lease transactions in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases," as: (1) direct financing; (2) sales-type; or (3) operating leases. Revenues and expenses between accounting periods for each lease term will vary depending upon the lease classification.

For financial statement purposes, we present revenue from all three classifications in lease revenues, and costs related to these leases in direct lease costs.

DIRECT FINANCING AND SALES-TYPE LEASES. Direct financing and sales-type leases transfer substantially all benefits and risks of equipment ownership to the customer. A lease is a direct financing or sales-type lease if the creditworthiness of the customer and the collectability of lease payments are reasonably certain and it meets one of the following criteria: (1) the lease transfers ownership of the equipment to the customer by the end of the lease term; (2) the lease contains a bargain purchase option; (3) the lease term at inception is at least 75% of the estimated economic life of the leased equipment; or (4) the present value of the minimum lease payments is at least 90% of the fair market value of the leased equipment at the inception of the lease.

Direct financing leases are recorded as investment in direct financing leases upon acceptance of the equipment by the customer. At the commencement of the lease, unearned lease income is recorded that represents the amount by which the gross lease payments receivable plus the estimated residual value of the equipment exceeds the equipment cost. Unearned lease income is recognized, using the interest method, as lease revenue over the lease term.

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Sales-type leases include a dealer profit or loss that is recorded by the lessor at the inception of the lease. The dealer's profit or loss represents the difference, at the inception of the lease, between the present value of minimum lease payments computed at the interest rate implicit in the lease and its cost or carrying amount. Interest earned on the present value of the lease payments and residual value is recognized over the lease term using the interest method.

OPERATING LEASES. All leases that do not meet the criteria to be classified as direct-financing or sales-type leases are accounted for as operating leases. Rental amounts are accrued on a straight-line basis over the lease term and are recognized as lease revenue. Our cost of the leased equipment is recorded on the balance sheet as investment in leases and leased equipment and is depreciated on

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a straight-line basis over the lease term to our estimate of residual value. Revenue, depreciation expense and the resulting profit for operating leases are recorded on a straight-line basis over the life of the lease.

Lease revenues consist of rentals due under operating leases and amortization of unearned income on direct-financing and sales-type leases. Equipment under operating leases is recorded at cost and depreciated on a straight-line basis over the lease term to the Company's estimate of residual value. For the periods subsequent to the lease term, revenue is recognized upon receipt of payment from the lessee since collection of such payments is not reasonably assured. Such revenues recognized were \$1,335,094 and \$2,280,663 for the three months ended September 30, 2003 and 2004 and \$3,168,235 and \$4,421,698 for the six months ended September 30, 2003 and 2004, respectively.

As a result of these three classifications of leases for accounting purposes, the revenues resulting from the "mix" of lease classifications during an accounting period will affect the profit margin percentage for such period and such profit margin percentage generally increases as revenues from direct-financing and sales-type leases increase. Should a lease be financed, the interest expense declines over the term of the financing as the principal is reduced.

RESIDUAL VALUES. Residual values represent our estimated value of the equipment at the end of the initial lease term. The residual values for direct financing and sales-type leases are reported as part of the investment in direct financing and sales-type leases, on a net present value basis. The residual values for operating leases are included in the leased equipment's net book value and are reported in the investment in operating lease equipment. The estimated residual values will vary, both in amount and as a percentage of the original equipment cost, and depend upon several factors, including the equipment type, manufacturer's discount, market conditions and the term of the lease.

We evaluate residual values on an ongoing basis and record any required changes in accordance with SFAS No. 13. Residual values are affected by equipment supply and demand and by new product announcements by manufacturers. In accordance with accounting principles generally accepted in the United States of America, residual value estimates are adjusted downward when such assets are impaired.

We seek to realize the estimated residual value at lease termination through: (1) renewal or extension of the original lease; (2) sale of the equipment either to the lessee or on the secondary market; or (3) lease of the equipment to a new customer. The difference between the proceeds of a sale and the remaining estimated residual value is recorded as a gain or loss in lease revenues when title is transferred to the lessee, or, if the equipment is sold on the secondary market, in equipment sales revenues and cost of equipment sales when title is transferred to the buyer. For lease periods subsequent to the initial term, month-to-month continuation transactions, our policy regarding recognized revenues is upon the payment by the lessee because collection of such amounts is not reasonably assured.

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INITIAL DIRECT COSTS. Initial direct costs related to the origination of direct financing or operating leases are capitalized and recorded as part of the net investment in direct financing leases, or net operating lease equipment, and are amortized over the lease term.

OTHER SOURCES OF REVENUE. Amounts charged for hosting arrangements in which the customer accesses the programs from an ePlus-hosted site and does not have possession, and for Procure+, our e-procurement software package, are recognized as services are rendered. Amounts charged for Manage+, our asset management

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software service, are recognized on a straight-line basis over the period the services are provided. Fee and other income results from: (1) income from events that occur after the initial sale of a financial asset; (2) re-marketing fees; (3) brokerage fees earned for the placement of financing transactions; (4) agent fees received from various manufacturers in the reseller business; and (5) interest and other miscellaneous income. These revenues are included in fee and other income in our consolidated statements of earnings.

RESERVE FOR CREDIT LOSSES. The reserve for credit losses is maintained at a level believed by management to be adequate to absorb potential losses inherent in the Company's lease and accounts receivable portfolio. Management's determination of the adequacy of the reserve is based on an evaluation of historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, and other relevant factors. The reserve is increased by provisions for potential credit losses charged against income. Accounts are either written off or written down when the loss is both probable and determinable, after giving consideration to the customer's financial condition, the value of the underlying collateral and funding status (i.e., discounted on a non-recourse or recourse basis).

CAPITALIZATION OF COSTS OF SOFTWARE FOR INTERNAL USE. The Company has capitalized certain costs for the development of internal-use software under the guidelines of SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." These capitalized costs are included in the accompanying condensed consolidated balance sheets as a component of property and equipment - net. Capitalized costs, net of amortization, totaled \$1,114,578 and \$1,242,315 as of September 30, 2004 and March 31, 2004, respectively.

CAPITALIZATION OF COSTS OF SOFTWARE TO BE MADE AVAILABLE TO CUSTOMERS. In accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," software development costs are expensed as incurred until technological feasibility has been established, at such time such costs are capitalized until the product is made available for release to customers. These capitalized costs are included in the accompanying condensed consolidated balance sheets as a component of other assets. The Company had \$724,502 and \$954,456 of capitalized costs, net of amortization, as of September 30, 2004 and March 31, 2004, respectively.

RESULTS OF OPERATIONS - Three and Six Months Ended September 30, 2004 Compared to Three and Six Months Ended September 30, 2003

Total revenues generated by the Company during the three-month period ended September 30, 2004 were \$153,185,698, compared to revenues of \$85,636,731 during the comparable period in the prior fiscal year, an increase of 78.9%. The increase is primarily the result of increased sales of product and leased equipment. Total revenues generated by the Company during the six-month period ended September 30, 2004 were \$259,884,432 compared to revenues of \$165,504,249 during the comparable period in the prior fiscal year, an increase of 57.0%. The Company's revenues are composed of sales and other revenue, and may vary considerably from period to period. See "POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS."

Sales of product are generated primarily through the Company's technology sales business unit subsidiaries and represented 99.6% of the total sales of product revenue for the three months ended September 30, 2004 and 2003. Sales of product increased 96.2% to \$138,065,002 during the three-month period ended September 30, 2004, as compared to \$70,380,144 generated during the corresponding period in the prior fiscal year. For the six-month period ended September 30, 2004,

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sales increased 69.5% to \$230,033,864 from \$135,675,931 generated during the corresponding period in the prior fiscal year. The increase was a result of higher sales within our technology sales business unit subsidiaries. The acquisition of Manchester Technologies, Inc. accounted for \$34.1 million and \$6.7 million, for the quarters ended September 30, 2004 and June 30, 2004, respectively. Other factors contributing to the increase include several large purchases by major customers and a general increase in sales from our pre-Manchester customer base. Included in the sales of product in our technology sales business unit are certain service revenues that are bundled with sales of equipment and are integral to the successful delivery of such equipment. The Company realized a gross margin on sales of product of 10.7% for the three and six months ended September 30, 2004, and 11.4% and 11.6% for the three and six months ended September 30, 2003, respectively. The Company's gross margin on sales of product is affected by the mix and volume of products sold.

The Company's lease revenues decreased 7.7% to \$11,911,090 for the three months ended September 30, 2004, compared with \$12,910,616 during the corresponding period in the prior fiscal year. For the six-month period ended September 30, 2004, lease revenues decreased 4.8% to \$24,066,831 compared with \$25,286,163 during the corresponding period in the prior fiscal year. This decrease is due to a decrease in the total number of leases.

For the three months ended September 30, 2004, fee and other income increased 36.8% to \$3,209,606 as compared to \$2,345,971 in the comparable period in the prior fiscal year. For the six months ended September 30, 2004, fee and other income increased 27.3% to \$5,783,737 as compared to \$4,542,155 in the comparable period in the prior fiscal year. Fee and other income includes revenues from adjunct services and fees, including broker and agent fees, support fees, warranty reimbursements, and interest income. The current period increase in fee and other income is primarily attributable to an increase in professional consulting fees from our eECM solution of approximately \$863,635, most of which is related to the acquisition of Manchester Technologies, Inc.'s consulting division. The Company's fee and other income includes earnings from certain transactions that are in the Company's normal course of business, but there is no guarantee that future transactions of the same nature, size or profitability will occur. The Company's ability to consummate such transactions, and the timing thereof, may depend largely upon factors outside the direct control of management. The earnings from these types of transactions in a particular period may not be indicative of the earnings that can be expected in future periods.

For the three months ended September 30, 2004, cost of sales, product increased 97.8% to \$123,342,547 from \$62,364,436 in the comparable period in the prior year. This is primarily attributable to the correlating increase in sales of product. For the six months ended September 30, 2004, cost of sales, product increased 71.4% from \$119,876,360 to \$205,503,332.

The Company's direct lease costs increased 22.3% and 18.2% to \$2,930,271 and \$5,607,270 during the three- and six-month periods ended September 30, 2004, respectively. The increase is the result of an increase in lease depreciation, specifically depreciation on the increased operating lease assets and on the Company's matured lease portfolio.

The increase in professional and other fees of 243.0%, or \$1,994,672, for the three months ended September 30, 2004 over the comparable period in the prior fiscal year, was primarily the result of increased expenses related to the Company's pursuing patent-infringement litigation of approximately \$883,401, as well as an increase in the use of outside technical services. Professional and other fees increased 242.6% or \$3,243,392 for the six months ended September 30, 2004 as compared to the comparable period for the prior year. For the current six-month period, approximately \$1,053,625 of the increase was related to patent-infringement litigation. Professional and other fees also include expenses that the Company paid to Manchester Technologies, Inc. for professional

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services rendered by people that became employees of the Company in a subsequent period, as well as a transition team that was involved in the purchase of Manchester Technologies, Inc.

Salaries and benefits expenses increased 48.8% and 27.4% to \$14,877,568 and \$25,675,699, respectively, during the three- and six-month periods ended September 30, 2004, as compared to the same period in the prior fiscal year. These increases are due in part to an increase in benefit costs and an increase in the average number of employees. The Company employed approximately 625 as of September 30, 2004, as compared to 540 people at September 30, 2003.

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The Company's general and administrative expenses increased 21.1% to \$4,435,573 during the three months ended September 30, 2004, as compared to the same period in the prior fiscal year. For the six-month period ended September 30, 2004, general and administrative expenses increased 15.7% to \$8,655,049 as compared to the same period in the prior fiscal year. Such increase is largely due to a higher sales volume, which, in turn, created a larger bad-debt and inventory allowance; and an increase in the number of offices and employees, due in part to the Manchester Technologies, Inc. acquisition.

Interest and financing costs incurred by the Company for the three- and six-month periods ended September 30, 2004 decreased 28.8% and 24.6% to \$1,300,648 and \$2,692,785, respectively. This resulted from a combination of our decreasing non-recourse debt portfolio from \$123,378,815 on September 30, 2003 to \$109,381,529 on September 30, 2004 and a decrease in our weighted average interest rate on new lease-related non-recourse debt during the three- and six-month periods ended September 30, 2004. Interest and financing costs include interest costs on the Company's lease-specific and general working capital indebtedness.

The Company's provision for income taxes decreased to \$1,428,279 for the three months ended September 30, 2004 from \$1,860,705 for the three months ended September 30, 2003, because of less pre-tax earnings. Both three-month periods had effective income tax rates of 41.0%. The Company's provision for income taxes decreased to \$2,939,720 for the six-month period ended September 30, 2004 from \$3,338,803 for the six-month period ended September 30, 2003. This decrease was due to reduced earnings.

The foregoing resulted in a 24% decrease in net earnings to \$2,055,327 for the three-month period ended September 30, 2004 as compared to the same period in the prior fiscal year and a 15.5% decrease in net earnings to \$4,230,327 for the six-month period ended September 30, 2004. Basic and fully diluted earnings per common share were \$0.23 and \$0.22 for the three months ended September 30, 2004, respectively, as compared to \$0.29 and \$0.27 for the three months ended September 30, 2003, respectively. Basic and diluted weighted average common shares outstanding for the three months ended September 30, 2004 were 8,922,104 and 9,252,196, respectively. For the three months ended September 30, 2003, the basic and diluted weighted average shares outstanding were 9,466,651 and 10,179,738, respectively. Basic and fully diluted earnings per common share were \$0.47 and \$0.45 for the six months ended September 30, 2004, as compared to \$0.53 and \$0.50 for the six months ended September 30, 2003. Basic and diluted weighted average common shares outstanding for the six months ended September 30, 2004 were 8,921,848 and 9,350,598, respectively. For the six months ended September 30, 2003, the basic and diluted weighted average shares outstanding were 9,461,047 and 10,047,323, respectively.

LIQUIDITY AND CAPITAL RESOURCES

During the six-month period ended September 30, 2004, the Company used cash

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flows in operating activities of \$14,488,952 and used cash flows in investing activities of \$14,633,920. Cash flows generated by financing activities amounted to \$18,041,790 during the same period. The net effect of these cash flows was a net decrease in cash and cash equivalents of \$11,047,240 during the six-month period. During the same period, the Company's total assets increased \$59,493,426, or 20.2%. The cash balance at September 30, 2004 was \$14,107,771 as compared to \$25,155,011 at March 31, 2004.

Based on concerns raised by the staff of the Securities and Exchange Commission ("SEC") in guidance posted on the SEC website on February 15, 2005 concerning the previous presentation of the cash flow effects of long-term customer receivables, including sales-type lease receivables, management has determined it is appropriate to change the classification of all cash flows related to its direct financing and sales-type lease transactions within the condensed consolidated statements of cash flows.

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Historically, the Company classified the cash flows from direct financing and sales-type leases as investing activities in the condensed consolidated statement of cash flows. The Company is now classifying these cash flows as operating activities in the condensed consolidated statements of cash flows. Therefore, no cash amounts related to direct financing or sales-type leases are classified as investing activities.

In addition, in performing the reclassifications required by the SEC guidance as described in Note 2, the Company also discovered certain amounts relating to property and equipment, and operating leases which needed to be reclassified between operating and investing activities. For the six months ended, September 30, 2003, this correction increased net cash used in operating activities and decreased net cash used in investing activities by \$909,313. For the six months ended September 30, 2004, this correction increased cash used in operating activities and decreased cash used in investing activities by \$351,119. Furthermore, certain amounts related to its borrowings on lines of credit, which are included in financing activities, were presented showing borrowings and repayments separately and are now presented net.

The Company's debt financing activities typically provide approximately 80% to 100% of the purchase price of the equipment purchased by the Company for lease to its customers. Any balance of the purchase price (the Company's equity investment in the equipment) must generally be financed by cash flow from its operations, the sale of the equipment leased to third parties, or other internal means. Although the Company expects that the credit quality of its leases and its residual return history will continue to allow it to obtain such financing, no assurances can be given that such financing will be available on acceptable terms, or at all. The financing necessary to support the Company's leasing activities has principally been provided by non-recourse and recourse borrowings. Historically, the Company has obtained recourse and non-recourse borrowings from banks and finance companies. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed lease payments under the lease at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid from the lease payment, the lien is released and all further rental or sale proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk of each lease, and its only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease. Recently, the Company has funded its leasing activities

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with Bank of America Vendor Finance, Inc. (including Fleet Business Credit LLC), De Lage Landen Financial Services, Inc., Citizens Leasing Corporation, Fifth Third Bank, GE Capital Corporation, Hitachi Capital America Corporation, JP Morgan Leasing, Inc, and Wells Fargo Equipment Finance, Inc., among others. During the six-month period ended September 30, 2004, the Company's lease related non-recourse debt portfolio decreased 7.2% to \$109,381,529.

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Whenever possible and desirable, the Company arranges for equity investment financing which includes selling assets, including the residual portions, to third parties and financing the equity investment on a non-recourse basis. The Company generally retains customer control and operational services, and has minimal residual risk. The Company usually preserves the right to share in remarketing proceeds of the equipment on a subordinated basis after the investor has received an agreed to return on its investment. We actively sell or finance our equity investment with Bank of America, Fleet Business Credit Corporation and GE Capital Corporation, among others.

The Company's "Accounts payable - equipment" represents equipment costs that have been placed on a lease schedule, but for which the Company has not yet paid. The balance of unpaid equipment cost can vary depending on vendor terms and the timing of lease originations. As of September 30, 2004, the Company had \$20,228,996 of unpaid equipment cost, as compared to \$9,993,077 at March 31, 2004.

The Company's "Accounts payable - trade" increased 81.3% from \$32,140,670 to \$58,278,525 due to an increase in sales of product and, consequently, an increase in cost of goods sold, product from our technology business unit. This increase in purchases subsequently increases our trade payables.

The Company's "Accrued expenses and other liabilities" includes deferred income, accrued salaries and benefits, and amounts collected and payable, such as sales taxes and lease rental payments due to third parties. As of September 30, 2004, the Company had \$20,025,696 of accrued expenses and other liabilities.

Working capital for our leasing business is provided through a \$45,000,000 credit facility expiring on July 21, 2006. Participating in this facility are Branch Banking and Trust Company, Bank of America, and National City Bank as agent. Each bank has committed \$15,000,000 to the facility. The ability to borrow under this facility is limited to the amount of eligible collateral at any given time. The credit facility is secured by certain of the Company's assets such as chattel paper (including leases), receivables, inventory, and equipment. In addition, we have entered into pledge agreements for the stock of each of our Subsidiaries. The credit facility contains certain financial covenants and certain restrictions on, among other things, the Company's ability to make certain investments, and sell assets or merge with another company. As of September 30, 2004, the Company had no outstanding balance. In general, we use the National City Bank facility to pay the cost of equipment to be put on lease, and we repay borrowings from the proceeds of: (1) long-term, non-recourse, fixed rate financing which we obtain from lenders after the underlying lease transaction is finalized or (2) sales of leases to third parties. The loss of this credit facility could have a material adverse effect on our future results as we may have to use this facility for daily working capital and liquidity for our leasing business.

The interest rates charged on borrowings under the National City Bank facility are the higher of the LIBOR interest rate plus 1.75% to 2.50%, or the higher of the Federal Funds Rate plus 0.5% to 0.75% or prime rate. The availability of the credit facility is subject to a borrowing base formula that consists of inventory, receivables, purchased assets, and leases. Availability under the credit facility may be limited by the asset value of equipment purchased by us

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or by terms and conditions in the credit facility agreement. If we are unable to sell the equipment or unable to finance the equipment on a permanent basis within a certain time period, the availability of credit under the facility could be diminished or eliminated. The credit facility contains covenants relating to the following: minimum tangible net worth; cash flow coverage ratios; maximum debt to equity ratio; maximum amount of guarantees of subsidiary obligations; mergers; acquisitions; and asset sales. The Company was in compliance with said covenants as of September 30, 2004.

ePlus Technology, inc. has a credit facility from GE Commercial Distribution Finance Corporation ("GECDF") to finance its working capital requirements for inventories and accounts receivable. There are two components of this lending facility: a floorplan credit facility and an accounts receivable facility.

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Floorplan Credit Facility

The traditional business of ePlus Technology as a seller of computer technology and related peripherals and software products is financed through an agreement known as a floorplan credit facility in which interest expense for the first thirty to forty-five days, in general, is not charged but is paid by the supplier/distributor. The floorplan liabilities are recorded as accounts payable-trade, as they are normally repaid within the thirty- to forty-five day time-frame and represent an assigned accounts payable originally generated with the supplier/distributor. If the thirty- to forty-five day obligation is not paid timely, interest is then assessed at stated contractual rates.

The respective floorplan facility credit limits and actual outstanding balances were as follows:

Floorplan Supplier	Credit Limit at March 31, 2004	Balance as of March 31, 2004	Credit Limit at September 30, 2004	S

GE Distribution Finance Corp.	\$ 26,000,000	\$ 21,637,077	\$ 75,000,000	\$

The limit is further defined as being \$50,000,000 at all times other than during the Seasonal Uplift Period. The Seasonal Uplift Period is defined as August 1st through December 31st each calendar year. During the Seasonal Uplift Period, the limit increases to \$75,000,000.

Accounts Receivable Facility

In addition to the floorplan component, ePlus Technology, inc. has an accounts receivable facility through GECDF. The accounts receivable facility was modified on August 18, 2004 from a limit of \$15,000,000 to include a Seasonal Uplift Period as defined above to \$20,000,000.

As of September 30, 2004 there was an outstanding balance of \$18,002,005 on this facility. As of March 31, 2004, the maximum available that could be borrowed under the accounts receivable facility was \$15,000,000 and there was no outstanding balance. Availability under the lines of credit may be limited by the asset value of equipment purchased by the Company and may be further limited by certain covenants and terms and conditions of the facilities. The Company was in compliance with said covenants as of September 30, 2004.

On June 28, 2004, the Company modified its credit facility agreement with GECDF to increase the credit limit to \$50,000,000 from \$26,000,000. The modification on August 18, 2004 also included a provision that during the Seasonal Uplift Period, the floorplan credit facility and the accounts receivable facility, in aggregate, could not exceed the \$75,000,000 credit limit.

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The facility provided by GECDF requires a guaranty of up to \$10,500,000 by ePlus inc. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology sales business and operational accounts payable functions.

In the normal course of business, the Company may provide certain customers with performance guarantees, which are generally backed by surety bonds. In general, the Company would only be liable for the amount of these guarantees in the event of default in the performance of our obligations, the probability of which is remote in management's opinion. The Company is in compliance with the performance obligations under all service contracts for which there is a performance guarantee, and any liability incurred in connection with these guarantees would not have a material adverse effect on the Company's consolidated results of operations or financial position. In addition, the Company has other guarantees that represent parent guarantees in support of the ePlus Technology, inc. floorplan and accounts receivable facility of up to \$10.5 million.

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On September 20, 2001, the Company's Board of Directors authorized the repurchase of up to 750,000 shares of its outstanding common stock for a maximum of \$5,000,000 over a period of time ending no later than September 20, 2002. On October 4, 2002, another stock repurchase program previously authorized by the Company's Board of Directors became effective. This program authorized the repurchase of up to 3,000,000 shares of the Company's outstanding common stock over a period of time ending no later than October 3, 2003 and is limited to a cumulative purchase amount of \$7,500,000. On October 1, 2003, the Company's Board of Directors authorized another stock repurchase program for the repurchase of up to 3,000,000 shares of the Company's outstanding common stock over a period of time ending September 30, 2004, with a cumulative purchase maximum of \$7,500,000. On May 5, 2004, the Company's Board of Directors approved an increase in cumulative purchase maximum amount from \$7,500,000 to \$12,000,000.

During the three months ended September 30, 2003, the Company repurchased 163,300 shares of its outstanding common stock for a total of \$2,278,747, whereas during the three months ended September 30, 2004, there were no stock repurchases. During the six months ended September 30, 2004 and 2003, the Company repurchased 39,000 and 163,300 shares of its outstanding common stock for \$492,552 and \$2,278,747, respectively. Since the inception of the Company's initial repurchase program on September 20, 2001, and as of September 30, 2004, the Company had repurchased 1,816,284 shares of its outstanding common stock at an average cost of \$9.74 per share for a total of \$17,685,438. Of the shares repurchased, 331,551 shares were repurchased at a price of \$5.87 per share as a result of a settlement that occurred in August, 2002.

POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS

The Company's future quarterly operating results and the market price of its stock may fluctuate. In the event the Company's revenues or earnings for any quarter are less than the level expected by securities analysts or the market in general, such shortfall could have an immediate and significant adverse impact on the market price of the Company's stock. Any such adverse impact could be greater if any such shortfall occurs near the time of any material decrease in any widely followed stock index or in the market price of the stock of one or more public equipment leasing and financing companies or major customers or vendors of the Company.

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The Company's quarterly results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, its entry into the e-commerce market, any reduction of expected residual values related to the equipment under the Company's leases, timing of specific transactions and other factors. See "Factors That May Affect Future Operating Results." Quarterly operating results could also fluctuate as a result of the sale by the Company of equipment in its lease portfolio, at the expiration of a lease term or prior to such expiration, to a lessee or to a third party. Such sales of equipment may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters.

The Company believes that comparisons of quarterly results of its operations are not necessarily meaningful and that results for one quarter should not be relied upon as an indication of future performance.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Certain statements contained in this report are not based on historical fact, but are forward-looking statements that are based upon numerous assumptions about future conditions that may not occur. Actual events, transactions and results may materially differ from the anticipated events, transactions, or results described in such statements. The Company's ability to consummate such transactions and achieve such events or results is subject to certain risks and uncertainties. Such risks and uncertainties include, but are not limited to, the matters set forth below.

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Our traditional businesses of equipment leasing and financing and technology sales have the following risks, among others, which are described in the Company's 2004 Form 10-K:

- we may not be able to realize our entire investment in the equipment we lease;
- we depend on creditworthy customers and may not have reserved adequately for credit losses;
- capital spending by our customers may decrease;
- direct marketing by manufacturers rather than through distributors may affect future sales; and
- inventory and accounts receivable financing may not be available.

Our eECM solution, introduced in May 2002, has had a limited operating history. Although we have been in the business of financing and selling information technology equipment since 1990, we will encounter some of the challenges, risks, difficulties and uncertainties frequently encountered by early-stage companies using new and unproven business models in rapidly evolving markets. Some of these challenges relate to the Company's ability to:

- increase the total number of users of eECM services;
- adapt to meet changes in its markets and competitive developments; and
- continue to update its technology to enhance the features and functionality of its suite of products.

We cannot be certain that our business strategy will be successful or that it will successfully address these and other challenges, risks and uncertainties.

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Over the longer term, the Company expects to derive a significant portion of its revenues from its eECM business model, which is unproven. The Company expects to incur expenses that may negatively impact profitability. The Company also expects to incur significant sales and marketing, research and development, and general and administrative expenses in connection with the development of this business. As a result, the Company may incur significant expenses, which may have a material adverse effect on the future operating results of the Company as a whole.

Broad and timely acceptance of the eECM services, which is important to the Company's future success, is subject to a number of significant risks. These risks include:

- the electronic commerce business-to-business solutions market is highly competitive;
- the system's ability to support large numbers of buyers and suppliers is unproven;
- significant enhancement of the features and services of our eECM solution may be needed to achieve widespread commercial initial and continued acceptance of the system;
- the pricing model may not be acceptable to customers;
- if the Company is unable to develop and increase volume from our eECM services, it is unlikely that it will ever achieve or maintain profitability in this business;
- businesses that have already made substantial up-front payments for e-commerce solutions may be reluctant to replace their current solution and adopt the Company's solution;
- the Company's ability to adapt to a new market that is characterized by rapidly changing technology, evolving industry standards, new product announcements and established competition;
- we may be unable to protect our intellectual property rights or face claims from third parties for infringement of their products.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Although a substantial portion of the Company's liabilities are non-recourse, fixed interest rate instruments, the Company is reliant upon lines of credit and other financing facilities that are subject to fluctuations in interest rates. These instruments were entered into for other than trading purposes, are denominated in U.S. Dollars, and, with the exception of amounts drawn under the National City Bank and GE Distribution Finance Corporation facilities, bear interest at a fixed rate. Because the interest rate on these instruments is fixed, changes in interest rates will not directly impact our cash flows. Borrowings under the National City and GE Distribution Finance Corporation facilities bear interest at a market-based variable rate, based on a rate selected by the Company and determined at the time of borrowing. If the amount borrowed is not paid at the end of the rate period, the rate is reset in accordance with the Company's selection and changes in market rates. Due to the relatively short nature of the interest rate periods, we do not expect our operating results or cash flow to be materially affected by changes in market interest rates. As of September 30, 2004, the aggregate fair value of our recourse borrowings approximated their carrying value.

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During the year ended March 31, 2003, the Company began transacting business in Canada. As a result, the Company has entered into lease contracts and non-recourse, fixed interest rate financing denominated in Canadian Dollars. To date, Canadian operations have been insignificant and the Company believes that potential fluctuations in currency exchange rates will not have a material effect on its financial position.

Item 4. CONTROLS AND PROCEDURES

In connection with the preparation of its consolidated financial statements for the quarter ended December 31, 2004, the Company determined that there was a "material weakness" (as defined under standards established by the American Institute of Certified Public Accountants) in its internal control over financial reporting relating to a split payment lease transaction that had been incorrectly recorded during the quarter ended September 30, 2004. The Company identified this error after the filing of the Form 10-Q for the second quarter ended September 30, 2004; however, the Company's internal controls relating to overall financial review and analysis in the context of the closing process did not identify the error in time to preclude a misstatement of the balance sheet and statements of earnings. As a result of this discovery, the Company has corrected the error in recording this split payment lease and this Form 10-Q/A reflects the restatement of its assets as of September 30, 2004, and its earnings for the three- and six-month periods ended September 30, 2004. Company management has discussed the accounting error described above with the Audit Committee of the Board of Directors and its independent registered public accountants. Management is working with the Audit Committee to identify and implement corrective actions, where required, to improve the effectiveness of its internal controls, including the enhancement of systems, accounting and review procedures and communications among its staff. Also, management has determined not to enter into any more split payment financing arrangements until the Company's accounting processes can be revised to accurately record them.

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this report. Based upon that evaluation and subsequent evaluations conducted, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that as a result of the material weakness discussed above, the Company's disclosure controls and procedures as of September 30, 2004 were not effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no significant changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On May 26, 2004 the Company filed a complaint against Ariba, Inc. in the United States District Court for the Eastern District of Virginia. The complaint alleges that Ariba, Inc. used or sold products, methods, processes, services

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and/or systems that infringe on certain of the Company's patents. The Company is seeking injunctive relief and an unspecified amount of monetary damages. On November 19, 2004, a hearing is scheduled regarding a cross motion for summary judgment.

Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities
Not Applicable

Item 3. Defaults Upon Senior Securities
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

On September 14, 2004, the Company held its annual meeting of stockholders. At the annual meeting, Terrance O'Donnell and Milton E. Cooper, Jr. were elected to the Board of Directors as Class II Directors to hold office for three years and until their successors are duly elected and qualified. The votes were cast as follows:

	For -----	Withhold Authority -----
Terrence O'Donnell	8,413,591	32,634
Milton E. Cooper, Jr.	8,432,108	14,117

Immediately upon approval of this item, the Company's directors were Phillip G. Norton, Bruce M. Bowen, Terrance O'Donnell, Milton E. Cooper, Jr., Lawrence S. Herman, and C. Thomas Faulders III.

Stockholders also voted to ratify the appointment of Deloitte and Touche LLP as the Company's independent auditors for the Company's fiscal year ending March 31, 2005. The votes were cast as follows:

For -----	Against -----	Abstain -----
8,440,376	1,634	4,215

Item 5. Other Information
Not Applicable

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Item 6. EXHIBITS

Exhibit No. Exhibit Description

3.1	Certificate of Incorporation of the Company, filed August 27, 1996 (Incorporated to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended
3.2	Certificate of Amendment of Certificate of Incorporation of the Company, filed (Incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report the period ended December 31, 2002).
3.3	Certificate of Amendment of Certificate of Incorporation of the Company, filed (Incorporated herein by reference to Exhibit 3.3 to the Company's Quarterly Report the period ended December 31, 2002).

