

EPLUS INC  
Form 10-K  
June 15, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2010

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: 1-34167

ePlus inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

54-1817218  
(I.R.S. Employer 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the  
Act.  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (do not check if smaller reporting company) Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of ePlus, computed by reference to the closing price at which the stock was sold as of September 30, 2009 was \$67,321,626. The outstanding number of shares of common stock of ePlus as of May 28, 2010, was 8,118,564 .

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the indicated parts of this Form 10-K:

Document	Part
Portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end.	Part III

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## Table of Contents

	Page
<u>Cautionary Language About Forward-Looking Statements</u>	1
Part I	
Item 1.	<u>Business</u> 2
	<u>Executive Officers</u> 10
Item 1A.	<u>Risk Factors</u> 11
Item 1B.	<u>Unresolved Staff Comments</u> 17
Item 2.	<u>Properties</u> 17
Item 3.	<u>Legal Proceedings</u> 18
Part II	
Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 19
Item 6.	<u>Selected Financial Data</u> 21
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 21
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 36
Item 8.	<u>Financial Statements and Supplementary Data</u> 36
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 36
Item 9A(T).	<u>Controls and Procedures</u> 36
Item 9B.	<u>Other Information</u> 37
Part III	
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u> 38
Item 11.	<u>Executive Compensation</u> 38
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 38
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u> 38
Item 14.	<u>Principal Accounting Fees and Services</u> 38
Part IV	
Item 15.	<u>Exhibits, Financial Statement Schedules</u> 39
<u>Signatures</u>	43



Table of Contents

CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact, but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as “may,” “should,” “intend,” “estimate,” “will,” “potential,” “could,” “believe,” “expect,” “anticipate,” “project,” and similar expressions. Readers are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements are made based upon information that is currently available or management’s current expectations and beliefs concerning future developments and their potential effects upon us, speak only as of the date hereof, and are subject to certain risks and uncertainties. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware. 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. Such risks and uncertainties include, but are not limited to, the matters set forth below:

- we offer a comprehensive set of solutions—the bundling of our direct IT sales, professional services and financing with our proprietary software, and may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by similar companies, such as:
  - o managing a diverse product set of solutions in highly competitive markets;
  - o increasing the total number of customers utilizing bundled solutions by up-selling within our customer base and gaining new customers;
  - o adapting to meet changes in markets and competitive developments;
  - o maintaining and increasing advanced professional services by retaining highly skilled personnel and vendor certifications;
  - o integrating with external IT systems, including those of our customers and vendors; and
  - o continuing to enhance our proprietary software and update our technology infrastructure to remain competitive in the marketplace.
    - our ability to hire and retain sufficient qualified personnel;
    - a decrease in the capital spending budgets of our customers or purchases from us;
      - our ability to protect our intellectual property;
      - the creditworthiness of our customers;
    - the possibility of goodwill impairment charges in the future;
- our ability to raise capital, maintain or increase as needed our line of credit or floor planning facilities, or obtain non-recourse financing for our transactions;
  - our ability to realize our investment in leased equipment;
  - our ability to reserve adequately for credit losses; and
- significant adverse changes in, reductions in, or losses of relationships with major customers or vendors.

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as other reports that we file with the SEC.



Table of Contents

PART I

ITEM 1. BUSINESS

GENERAL

Our company was founded in 1990. ePlus inc. is sometimes referred to in this Annual Report on Form 10-K as “we”, “our”, “us”, “ourselves”, or “ePlus.”

Our operations are conducted through two basic business segments. Our first segment is our technology sales business unit that includes all the technology sales and related services, including our proprietary software. Our second segment is our financing business unit that consists of the leasing and financing of equipment and related software and services to commercial, government, and government-oriented entities. See Note 15, “Segment Reporting” in the Consolidated Financial Statements included elsewhere in this report.

ePlus inc. does not engage in any other business other than serving as the parent holding company for the following operating companies:

Technology Sales Business

- ePlus Technology, inc.;
- ePlus Systems, inc.;
- ePlus Content Services, inc.; and
- ePlus Document Systems, inc.

Financing Business

- ePlus Group, inc.;
- ePlus Government, inc.;
- ePlus Canada Company;
- ePlus Capital, inc.;
- ePlus Jamaica, inc.; and
- ePlus Iceland, inc.

We began using the name ePlus inc. in 1999 after changing our name from MLC Holdings, Inc. On March 31, 2003, the former entities ePlus Technology of PA, inc. and ePlus Technology of NC, inc. were merged into ePlus Technology, inc. This combination created one national entity to conduct our Technology sales and services business. ePlus Systems, inc. and ePlus Content Services, inc. were incorporated on May 15, 2001 and provide consulting services and proprietary software for enterprise supply management. ePlus Capital, inc. owns 100 percent of ePlus Canada Company, which was created on December 27, 2001 to transact business within Canada. ePlus Government, inc. was incorporated on September 17, 1997 to handle business servicing the Federal government marketplace, which includes financing transactions that are generated through government contractors. ePlus Document Systems, inc. was incorporated on October 15, 2003 and provides proprietary software for document management.

ePlus Jamaica, inc. was incorporated on April 8, 2005 and ePlus Iceland, inc. was incorporated on August 10, 2005. Both companies are subsidiaries of ePlus Group, inc. and were created to transact business in Jamaica and Iceland, respectively; however, neither entity has conducted any significant business, or has any employees or business locations outside the United States.





Table of Contents

OUR BUSINESS

Our primary focus is to deliver technology solutions. We have evolved our product set by expanding our technology credentials with our key vendors and developing proprietary software and engineering services. Our current offerings include:

- direct marketing of information technology equipment and third-party software;
  - advanced professional services;
- proprietary software, including order-entry and order-management software (OneSource®), procurement, asset management, document management and distribution software, and electronic catalog content management software and services; and
  - leasing, and business process services.

We have been in the business of selling, leasing, financing, and managing information technology and other assets for more than 19 years and have been providing software for more than 10 years. We currently derive the majority of our revenues from Information Technology (“IT”) product sales, advanced professional services, and leasing. Our sales are generated primarily by our internal sales force and through vendor relationships to our customers, which include commercial accounts; federal, state and local governments; K-12 schools; and higher education institutions. We also lease and finance equipment, and supply software and services directly and through relationships with vendors and equipment manufacturers.

Our broad product offerings provide customers with a highly-focused, end-to-end, turnkey solution for purchasing, lifecycle management, and financing for IT products and services. In addition, we offer asset-based financing and leasing of capital assets and lifecycle management solutions for the assets during their useful life, including disposal. We offer our customers a multi-disciplinary approach for implementing, controlling, and maintaining cost savings throughout their organizations, allowing our customers to simplify their administrative processes, gain data transparency and visibility, and enhance internal controls and reporting.

The key elements of our business are:

- **Direct IT Sales:** We are a direct marketer and authorized reseller of leading IT products via our direct sales force and web-based ordering solution, OneSource®.
- **Advanced Professional Services:** We provide an array of Internet telephony and Internet communications, collaboration, cloud computing, virtual desktop infrastructure (“VDI”), network design and implementation, storage, security, virtualization, business continuity, maintenance, and implementation services to support our customer base as part of our consolidated service offering.
- **Leasing, Lease and Asset Management, and Lifecycle Management:** We offer a wide range of leasing and financing options for IT and capital assets for both our product set as well as our vendor partners. These offerings include operating and direct finance leases, lease process automation and tracking, asset tracking and management, risk management, disposal of end-of-life assets, and lifecycle management.
- **Proprietary Software:** We offer proprietary software, for enterprise supply management, which can be used as standalone solutions or be integrated as component of a bundled solution. These include eProcurement, spend management, asset management, document management, and product content management software. These systems can be installed behind our customer’s firewall or operated as a service hosted by ePlus.

Our proprietary software and associated business process services allow us to better support and retain our customers in our technology sales and finance businesses. We have developed and acquired these products and services to distinguish us from our competition by providing a comprehensive offering to customers.

Our primary target customers are middle-market and larger companies in the United States of America with annual revenues between \$25 million and \$2.5 billion. We believe there are more than 50,000 target customers in this market.

## Table of Contents

### INDUSTRY BACKGROUND

In the current marketplace, we believe demand for IT equipment, services, and financing is being driven by the following industry trends:

- In calendar year 2009, IT spending in most categories declined due to the economy. In 2010, many industry analysts are forecasting an increase in overall IT spending in the U.S., and the first quarter produced solid results in many sectors of the industry. We believe that customers are continuing to focus on cost savings initiatives by utilizing technologies such as virtualization and cloud computing, and we continue to provide these and other advanced technology solutions to meet these needs.
- We believe customers are focused on improving their data and physical security, from their data centers to their end-user mobile devices, and all points between. These comprehensive and complex solutions may include consulting, hardware, software, and implementation, and ongoing maintenance and monitoring. We have continued to focus our resources in these areas to meet expected customer demand.
- We believe that customers are seeking to reduce the number of vendors they do business with for the purpose of improving internal efficiencies, enhancing accountability and improving supplier management practices, and reducing costs. We have continued to enhance our relationships with premier manufacturers and gained the engineering and sales certifications required to provide the most desired technologies for our customers. In addition, we have continued to enhance our automated business processes, including eProcurement and electronic business solutions, such as OneSource®, to make transacting business with us more efficient and cost effective for our customers. We introduced OneSource IT+ to improve internal business process efficiencies for customers ordering from multiple suppliers. OneSource IT+ is positioned to help our customers and prospects reduce the number of suppliers they purchase from, eliminate multiple and unique ordering processes, provide a consolidated view of IT purchases, consolidate invoice and payable processing and reduce the complexities of IT spend through multiple suppliers.
- We believe that customers prefer bundled offerings to include IT products/services and leasing, due to decreased liquidity in the global financial markets, as customers seek to preserve cash balances and working capital availability under bank lines.

We have continuously evolved our advanced professional service and software capabilities. We believe that we are distinctively positioned to take advantage of this shift in the purchasing process as evidenced by continued development of our various integrated solutions, which we began developing in 1999 (earlier than many other direct marketers) and we continue to believe that our bundled solution set is a leader in the marketplace because of its breadth and depth of offerings.

We believe that we will continue to benefit from industry changes as a cost-effective provider of a full range of IT products and services with the added competitive advantage of in-house proprietary software. In addition, our ability to provide financing for capital assets to our customers and our lifecycle management solutions provides an additional benefit and differentiator in the marketplace. While purchasing decisions will continue to be influenced by product selection and availability, price, and convenience, we believe that our comprehensive set of solutions is a differentiator that businesses will look for to reduce the total cost of ownership.

### COMPETITION

The market for IT sales and professional services is intensely competitive, subject to economic conditions and rapid change, and significantly affected by new product introductions and other market activities of industry participants.

We expect to continue to compete in all areas of our business against local, regional, national and international firms, including manufacturers; other direct marketers; national and regional resellers; and regional, national, and international services providers. In addition, many computer manufacturers may sell or lease directly to our customers, and our continued ability to compete effectively may be affected by the policies of such manufacturers.

## Table of Contents

We believe that we offer enhanced solution capability, broader product selection and availability, competitive prices, and greater purchasing convenience than traditional retail stores or value-added resellers. In addition, our dedicated account executives offer the necessary support functions (e.g., software, purchases on credit terms, leasing, and efficient return processes) that Internet-only sellers do not usually provide. We believe that we are one of the few companies in the United States that offers, as a principal, a comprehensive solution which can include eProcurement, leasing, advanced technology solutions, IT fulfillment, and end-to-end asset management services.

The market for leasing is intensely competitive and subject to changing economic conditions and market activities of industry participants. We expect to continue to compete against local, regional, national and international firms, including banks, specialty finance companies, vendors' captive finance companies, and third-party leasing companies. Banks and other large financial services companies sell directly to business customers, particularly larger enterprise customers, and may provide other financial or ancillary services that we do not provide. Vendor captive leasing companies may utilize internal transfer pricing to effectively lower lease rates and/or bundle equipment sales and leasing to provide highly competitive packages to customers. Third-party leasing companies may have deep customer and contractual relationships that are difficult to displace. However, these competitors typically do not offer the breadth of product, service, and software offerings that we offer our customers.

We believe that we offer an enhanced leasing solution to our customers which provides a business process services approach that can automate the leasing process and reduce our customers' cost of doing business with us. The solution incorporates value-added services at every step in the leasing process, including:

- front end processing, such as eProcurement, order aggregation, order automation, vendor performance measurement, ordering, reconciliation, and payment;
- lifecycle and asset ownership services, including asset management, change management, and property tax filing; and
  - end-of-life services such as equipment audit, removal, and disposal.

In addition, we are able to bundle equipment sales and professional services to provide a turnkey leasing solution. This allows us to differentiate ourselves with a customer service strategy that spans the continuum from fast delivery of competitively priced products to end-of-life disposal services, and a selling approach that permits us to grow with customers and solidify those relationships. We have expanded our product and service offerings under our comprehensive set of solutions which represents the continued evolution of our original implementation of our e-commerce products entitled ePlusSuite. The expansion to our bundled solution is a framework that combines our IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services.

In the software market, there are a number of companies developing and marketing business-to-business electronic commerce solutions similar to ours, and competitors are migrating their offerings to a Software-As-A-Service (“SAAS”) platform. Some of these competitors and potential competitors include enterprise resource planning (“ERP”) system vendors and other major software vendors that are expected to sell their procurement and asset management products along with their application suites. These ERP vendors have a significant installed customer base and have the opportunity to offer additional products to those customers as additional components of their respective application suites. We also face indirect competition from potential customers' internal development efforts and have to overcome potential customers' reluctance to move away from existing legacy systems and processes.

We believe that the principal competitive factors for the solution are scalability, functionality, ease-of-use, ease-of-implementation, ability to integrate with existing legacy systems, experience in business-to-business supply chain management, and knowledge of a business' asset management needs. We believe we can compete favorably with our competitors in these areas within our framework that consists of OneSource®, OneSource® IT+ , Procure+®,

Spend+®, Manage+®, Content+®, ePlus Leasing, strategic sourcing, document management software, and business process outsourcing.

In all of our markets, some of our competitors have longer operating histories and greater financial, technical, marketing, and other resources than we do. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies, and customer requirements. Many current and potential competitors also have greater name recognition and engage in more extensive promotional marketing and advertising activities, offer more attractive terms to customers, and adopt more aggressive pricing policies than we do.

## Table of Contents

For a discussion of risks associated with the actions of our competitors, see Item 1A, “Risk Factors” included elsewhere in this report.

## STRATEGY

Our goal is to become a leading provider of bundled solution offerings in the IT supply chain. The key elements of our strategy include the following:

- selling additional products and services to our existing customer base;
  - expanding our customer base;
  - making strategic acquisitions;
- expanding our advanced professional services offerings;
  - strengthening vendor relationships; and
- enhancing the effectiveness of our software offerings, especially OneSource®.

### Selling Additional Products and Services to Our Existing Customer Base

We seek to become the primary provider of IT solutions for our customers by delivering the best customer service, pricing, availability, and professional services in the most efficient manner. We continue to focus on improving our sales efficiency by providing on-going training, targeted incentive compensation, and by implementing better automation processes to reduce costs and improve productivity. Our account executives are being trained on our broad solutions capabilities and to sell in a consultative manner that increases the likelihood of cross-selling our solutions. We believe that our bundled offerings are an important differentiating factor from our competitors.

In 2006, we announced a new software portal called OneSource®, which is an integrated order entry platform to enhance product sales, increase incremental sales, and reduce costs by eliminating touch-points for order automation. In 2008, we extended the OneSource® brand by creating two differentiated solutions: OneSourceIT, for purchasing from ePlus’ technology catalog, and OneSourceIT+, for purchasing from ePlus and other technology vendors. We continue to offer Procure+, Content+, and Spend+, a full suite of eProcurement, catalog content management, and spend analysis applications on an SAAS or enterprise basis.

In 2008, we started a telesales group of experienced telesales sales professionals and engineers. This group is focused on marketing to existing and new customers primarily within the geographic reach of our existing service areas.

### Expanding Our Customer Base

We intend to increase our direct sales and targeted marketing efforts in each of our geographic and vertical industry areas. We actively seek to acquire new account relationships through a new outbound telesales effort, face-to-face field sales, electronic commerce (especially OneSource®), and targeted direct marketing to increase awareness of our solutions.

### Making Strategic Acquisitions

Based on our prior experience, capital structure, and business systems and processes, we believe we are well positioned to take advantage of strategic acquisitions that broaden our customer base, expand our geographic reach, scale our existing operating structure, and/or enhance our product and service offerings. It is part of our growth strategy to evaluate and consider strategic acquisition opportunities if and when they become available.





## Table of Contents

### Expanding Advanced Professional Service Offerings

We have focused on gaining engineering certifications and advanced professional services expertise in advanced technologies of strategic vendors, such as Cisco Systems, IBM, HP, NetApp, VMWare and Sun Microsystems. We are especially focused on VDI, data center virtualization, unified communications, collaboration, cloud computing, networking, security, and storage technologies that are currently in high demand. We believe our ability to deliver advanced professional services provides benefits in two ways. First, we gain recognition and mindshare of our strategic vendor partners and become the “go-to” partner in selected regional and national markets. This significantly increases direct and referral sales opportunities to provide our products and services, and allows us to achieve optimal pricing levels. Second, within our own existing and potential customer base, our advanced professional services are a key differentiator against competitors who cannot provide services or advanced services for these key technologies.

### Strengthening Vendor Relationships

We believe it is important to maintain relationships with key manufacturers such as VMWare, HP, IBM, Cisco, and NetApp on both a national level, for strategic purposes, and at the local level, for tactical objectives. Strategically, national relationships with key manufacturers give us increased visibility and legitimacy, and authenticate our services. In addition, by maintaining a number of high level engineering certifications, we are promoted as a high level solutions provider by certain manufacturers. On a tactical level, by having more than 20 locations, we are able to maintain direct relationships with key sales and marketing personnel from the manufacturer, who provide referral sales opportunities that are unavailable to Internet-only and catalog-based direct marketers.

### Enhancing the Effectiveness of our Internet-based Solutions, especially OneSource®

We will continue to improve and expand the functionality of our integrated, Internet-based solutions to better serve our customers’ needs. We intend to use the flexibility of our platform to offer additional products and services when economically feasible. As part of this strategy, we may also acquire technology companies to expand and enhance the platform of solutions to provide additional functionality and value-added services.

## RESEARCH AND DEVELOPMENT

In the 1990s, we utilized licensed software and outsourced development to provide software and hosted software-related services to our customers, but with the acquisition of software products and the hiring of employees from acquisitions in the early 2000s, our products are comprised of our own proprietary software. We expense software development costs as they are incurred until technological feasibility has been established. At such time, development costs are capitalized until the product is made available for release to customers. For the year ended March 31, 2010, no such costs were capitalized and \$162 thousand was amortized. For the year ended March 31, 2009, no such costs were capitalized and \$167 thousand was amortized. We have also outsourced certain programming tasks to an offshore software-development company to supplement our internal development, support, and quality assurance.

To successfully implement our business strategy and service the disparate requirements of our customers and potential customers, we have a flexible delivery model, which includes:

- traditional enterprise licenses;
- hosted or subscription; and
- software-as-a-service (“SAAS”), or a services model, where our personnel may utilize our software to provide one or more solutions to our customers.

We expect that competitive factors will create a continuing need for us to improve and add to our technology platform. The addition of new products and services will also require that we continue to improve the technology underlying our applications. We expect to continue to make significant investments in systems, personnel, and offshore development to maintain a competitive advantage in this market.

7

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## Table of Contents

### SALES AND MARKETING

We focus our marketing efforts on lead generation activities and converting our existing customer base to our bundled solution set. The target market for our customer base is primarily middle and large market companies with annual revenues between \$25 million and \$2.5 billion. We believe there are over 50,000 potential customers in our target market. We undertake many of our direct marketing campaigns to target certain markets in conjunction with our primary vendor partners, who may provide financial reimbursement, outsourced services, and personnel to assist us in these efforts.

Our sales representatives are compensated by a combination of salary and commission, with commission becoming the primary component of compensation as the sales representatives gain experience. To date, the majority of our customers have been generated from direct sales. We market to different areas within a customer's organization depending on the products or services we are selling. In 2008, we started a telesales group consisting of experienced telesales sales professionals and engineers. This group is focused on marketing to existing and new customers primarily within the geographic reach of our existing service areas.

As of March 31, 2010, our sales force was organized regionally in 25 office locations throughout the United States. See Item 2, "Properties" of this Form 10-K for additional office location information. As of March 31, 2010, our sales organization included 268 sales, marketing, and sales support personnel.

### INTELLECTUAL PROPERTY RIGHTS

Our success depends in part upon proprietary business methodologies and technologies that we have licensed and modified. We own certain software programs or have entered into software licensing agreements to provide services to our customers. We rely on a combination of copyright, trademark, service mark, trade secret protection, confidentiality and nondisclosure agreements and licensing arrangements to establish and protect intellectual property rights. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection.

For example, we have in the United States three electronic sourcing system patents, two of which are currently under re-examination by the United States Patent and Trademark Office ("USPTO"), six catalog management patents, three image transmission management patents, a patent for collaborative editing of electronic documents over a network, and a hosted asset information management patent, among others. We have a counterpart of the electronic sourcing system patents in nine European forums, and a counterpart of the image transmission management patents in five additional forums. In 2005, the three U.S. patents for electronic sourcing systems were determined to be valid and enforceable by a jury at trial. However, in 2006, a trial to enforce the same patents ended in a mistrial. We cannot provide assurance that any patents, as issued, will prevent the development of competitive products or that our patents will not be successfully challenged by others or invalidated through the administrative process or litigation. Otherwise, the earliest of the three electronic sourcing system patents is scheduled to expire in 2017; the three image transmission patents are scheduled to expire in 2018; the earliest of the catalog management patents is scheduled to expire in 2024; and the patent for collaborative editing of electronic documents over a network is scheduled to expire in 2025, provided that all maintenance fees are paid in accordance with USPTO regulations. We also have the following registered service/trademarks: ePlus, DirectSight, Procure+, Manage+, Finance+, ePlus Leasing, Docpak, Viewmark, Digital Paper, OneSource, Content+, eECM, and ePlus Enterprise Cost Management. In addition, we have over twenty registered copyrights and additional common-law trademarks and copyrights.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exists, software piracy could

be expected to be a persistent problem. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around our proprietary intellectual property.

#### SALES AND FINANCING ACTIVITIES

We have been in the business of selling, and providing advanced technology services for a wide array of information technology assets and software, leasing, and financing of IT and other capital assets and services, and a software publisher for procurement, content management, document management and asset management software. We currently derive the majority of our revenues from such activities.

Table of Contents

IT Sales and Professional Services. We are an authorized reseller of, or have the right to resell products and services from, over 400 manufacturers. Our most important manufacturer relationships include Cisco, HP, Sun Microsystems, NetApp, and IBM. Tech Data and Ingram Micro, Inc. are the largest distributors we utilize. We have multiple vendor engineering certifications that authorize us to market their products and enable us to provide advanced professional services. Our flexible platform and customizable catalogs facilitate the addition of new vendors with minimal incremental effort. Using the distribution systems available, we usually sell products that are shipped from the distributors or suppliers directly to our customer's location, which allows us to keep our inventory of any product and shipping expenses to a minimum. The products we sell typically have payment account terms ranging from payment in advance, by credit card, due upon delivery, or 30 days to pay, depending on the customer's credit and payment structure.

Leasing and Financing. Our leasing and financing transactions generally fall into two categories: direct financing and operating leases. Direct financing transfers substantially all of the benefits and risks of equipment ownership to the customer. Operating leases consist of all other leases that do not meet the criteria to be direct financing or sales-type leases. Our lease transactions include true leases and installment sales or conditional sales contracts with corporations, non-profit entities and municipal and federal government contractors. Substantially all of our lease transactions are net leases with a specified non-cancelable lease term and a fixed amount of rent. These non-cancelable leases have a provision which requires the lessee to make all lease payments without offset or counterclaim. A net lease requires the lessee to make the full lease payment and pay any other expenses associated with the use of equipment, such as maintenance, casualty and liability insurance, sales or use taxes and personal property taxes. We primarily lease computers, associated accessories and software, communication-related equipment, and medical equipment, and we may also lease industrial machinery and equipment, office furniture and general office equipment, transportation equipment, and other general business equipment. In anticipation of the expiration of the term of a lease, we initiate the remarketing process for the related equipment. Our goal is to maximize revenues from the remarketing effort by either (1) releasing or selling the equipment to the initial lessee, (2) renting the equipment to the initial lessee on a month-to-month basis, or (3) selling the equipment to an equipment broker or leasing the equipment to a different customer. The remarketing process is intended to enable us to recover or exceed the original estimated residual value of the leased equipment. Any amounts received over the estimated residual value less any commission expenses become profit margin to us and can significantly impact the degree of profitability of a lease transaction.

We aggressively manage the remarketing process of our leases to maximize the residual values of our leased equipment portfolio. To date, we have realized a premium over our original recorded residual assumption or the net book value.

Financing and Bank Relationships. We have a number of bank and finance company relationships that we use to provide working capital for our businesses and long-term financing for our lease financing businesses. Our finance department is responsible for maintaining and developing relationships with a diversified pool of commercial banks and finance companies with varying terms and conditions. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Risk Management and Process Controls. It is our goal to minimize the financial risks of our balance sheet assets. To accomplish this goal, we use and maintain conservative underwriting policies and disciplined credit approval processes. We also have internal control processes, including credit management, contract origination and management, cash management, servicing, collections, remarketing and accounting. We may utilize non-recourse financing (which is secured by a lease's underlying equipment and the specific lease and not our general assets) for our leasing transactions and we try to obtain lender commitments before acquiring the related assets.

When desirable, we manage our risk in assets by selling leased assets, including the residual portion of leases, to third parties rather than owning them. For certain transactions, we may act as an intermediary and obtain commitments for

these asset sales before we consummate the lease. We also use agency purchase orders to procure equipment for lease to our customers as an agent, not a principal, and otherwise take measures to minimize our inventory. Additionally, we use fixed-rate funding and issue proposals that adjust for material adverse interest rate movements as well as material adverse changes to the financial condition of the customer.

We have an executive management review process and other internal controls in place to evaluate the transactions' potential risk. Our lease and sale contracts are reviewed by senior management for pricing, structure, documentation, and credit quality. Due in part to our strategy of focusing on a few types of equipment categories, we have product knowledge, historical re-marketing information and experience with many of the items that we lease, sell, and service. We rely on our experience or outside opinions to set and adjust our sale prices, lease rate factors, and residual values.

Table of Contents

Default and Loss Experience. During the fiscal year ended March 31, 2010, we increased reserves for credit losses by \$728 thousand, incurred actual credit losses of \$353 thousand and had recoveries of \$118 thousand. During the fiscal year ended March 31, 2009, we increased reserves for credit losses by \$364 thousand, incurred actual credit losses of \$420 thousand and had recoveries of \$91 thousand.

**EMPLOYEES**

As of March 31, 2010, we employed 642 full-time and 19 part-time employees. These 661 employees operated through 25 office locations, including our principal executive offices and regional sales offices. No employees are represented by a labor union and we believe that we have good relations with our employees. The functional areas of our employees are as follows:

	Number of Employees
Sales and Marketing	268
Technical Support	152
Administration	169
Software and Implementations	63
Executive	9
Total	661

**U.S. SECURITIES AND EXCHANGE COMMISSION REPORTS**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, filed with or furnished to the U.S. Securities and Exchange Commission ("SEC"), are available free of charge through our Internet website, [www.eplus.com](http://www.eplus.com), as soon as reasonably practical after we have electronically filed such material with, or furnished it to, the SEC. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The contents on, or accessible through, these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

**EXECUTIVE OFFICERS**

The following table sets forth the name, age and position of each person who was an executive officer of ePlus on March 31, 2010. There are no family relationships between any director or executive officer and any other director or executive officer of ePlus.

NAME	AGE	POSITION
Phillip G. Norton	65	Director, Chairman of the Board, President and Chief Executive Officer
Bruce M. Bowen	58	Director and Executive Vice President
Elaine D. Marion	42	Chief Financial Officer
Mark P. Marron	48	Chief Operating Officer



Steven J. Mencarini 54 Senior Vice President of Business Operations

10

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Table of Contents

The business experience during the past five years of each executive officer of ePlus is described below.

Phillip G. Norton joined us in March 1993 and has served since then as our Chairman of the Board and CEO. Since September 1996, Mr. Norton has also served as our President. Mr. Norton is a 1966 graduate of the U.S. Naval Academy.

Bruce M. Bowen founded our company in 1990 and served as our President until September 1996. Since September 1996, Mr. Bowen has served as our Executive Vice President, and from September 1996 to June 1997 also served as our CFO. Mr. Bowen has served on our Board since our founding. He is a 1973 graduate of the University of Maryland and in 1978 received a Masters of Business Administration from the University of Maryland.

Elaine D. Marion joined us in 1998. Ms. Marion became our Chief Financial Officer on September 1, 2008. Since 2004, Ms. Marion served as our Vice President of Accounting. Prior to that, she was the Controller of ePlus Technology, inc., a subsidiary of ePlus, from 1998 to 2004. Ms. Marion is a 1995 graduate of George Mason University, where she earned a Bachelor's of Science degree with a concentration in Accounting.

Mark P. Marron joined our subsidiary ePlus Technology, inc. in 2005 as Senior Vice President of Sales. On April 22, 2010 he was appointed as Chief Operating Officer of ePlus inc. and President of ePlus Technology, inc. Prior to joining us, from 2001 - 2005 Mr. Marron was with NetIQ, where he held the position of senior vice president of worldwide sales. Prior to joining NetIQ, Mr. Marron served as general manager of worldwide channel sales for Computer Associates International Inc. Mr. Marron has a Bachelor's of Science degree in Computer Science from Montclair State University.

Steven J. Mencarini joined us in June 1997. On September 1, 2008, he became our Senior Vice President of Business Operations. Prior to that, he served as our Chief Financial Officer. Prior to joining us, Mr. Mencarini was Controller of the Technology Management Group of CSC. Mr. Mencarini joined CSC in 1991 as Director of Finance and was promoted to Controller in 1996. Mr. Mencarini is a 1976 graduate of the University of Maryland and received a Masters of Taxation from American University in 1985.

Each of our executive officers is chosen by the Board and holds his or her office until his or her successor shall have been duly chosen and qualified or until his or her death or until he or she resigns or is removed by the Board.

ITEM 1A. RISK FACTORS

General Economic Weakness May Harm Our Operating Results and Financial Condition

Our results of operations are dependent, to a large extent, upon the state of the economy. Global economies and financial markets continue to experience significant uncertainty and volatility. Continued adverse economic conditions may decrease our customers' demand for our products and services or impair the ability of our customers to pay for products and services they have purchased. In addition, many state and local governments who are our customers are experiencing financial difficulties which are causing budget shortfalls and resulting in decreased demand for our products and services. As a result, our revenues could decrease and reserves for our credit losses and write-offs of accounts receivable may increase. During the fiscal year ended March 31, 2010, sales of product and services decreased 1.3% to \$627.8 million compared to the last fiscal year.

The Soundness of Financial Institutions Could Adversely Affect Us

We have relationships with many financial institutions, including the lender under our credit facility, and, from time to time, we execute transactions with counterparties in the financial services industry. As a result, defaults by, or even

rumors or questions about, financial institutions or the financial services industry generally, could result in losses or defaults by these institutions. In the event that the volatility of the financial markets adversely affects these financial institutions or counterparties, we or other parties to the transactions with us may be unable to access credit facilities or complete transactions as intended, which could adversely affect our business and results of operations.

## Table of Contents

### We May Be Required to Take Additional Impairment Charges For Goodwill or Intangible Assets Related to Acquisitions

We have acquired certain portions of our business and certain assets through acquisitions. Further, as part of our long-term business strategy, we may continue to pursue acquisitions of other companies or assets. In connection with prior acquisitions, we have accounted for the portion of the purchase price paid in excess of the book value of the assets acquired as goodwill or intangible assets, and we may be required to account for similar premiums paid on future acquisitions in the same manner.

Under the applicable accounting rules, goodwill is not amortized and is carried on our books at its original value, subject to periodic review and evaluation for impairment, whereas intangible assets are amortized over the life of the asset. Changes in the business itself, the economic environment (including business valuation levels and trends), or the legislative or regulatory environment may trigger a periodic review and evaluation of our goodwill and intangible assets for potential impairment. These changes may adversely affect either the fair value of the business or the fair value of our individual reporting units and we may be required to take an impairment charge to the extent that the carrying values of our goodwill or intangible assets exceeds the fair value of the business in the reporting unit with goodwill and intangible assets. Also, if we sell a business for less than the book value of the assets sold, plus any goodwill or intangible assets attributable to that business, we may be required to take an impairment charge on all or part of the goodwill and intangible assets attributable to that business.

We determined that our goodwill related to the Leasing business unit was impaired, resulting in a non-cash impairment charge of \$4.0 million during the third quarter of fiscal 2010.

If market and economic conditions deteriorate further, this could increase the likelihood that we will need to record additional impairment charges to the extent the carrying value of our goodwill exceeds the fair value of our overall business. Such impairment charges could materially adversely affect our net earnings during the period in which the charge is taken.

### We May Not Be Able to Realize Our Entire Investment in the Equipment We Lease

The realization of equipment values (residual values) during the life and at the end of the term of a lease is an important element in our leasing business. At the inception of each lease, we record a residual value for the leased equipment based on our estimate of the future value of the equipment at the expected disposition date.

A decrease in the market value of leased equipment at a rate greater than the rate we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, or other factors, would adversely affect the current or residual values of such equipment. Further, certain equipment residual values are dependent on the manufacturer's or vendor's warranties, reputation and other factors, including market liquidity. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

The degree of residual realization risk varies by transaction type. Direct financing leases bear the least risk because contractual payments cover approximately 90% or more of the equipment's inception of lease cost. Operating leases have a higher degree of risk because a smaller percentage of the equipment's value is covered by contractual cash flows at lease inception.

### We Depend on Having Creditworthy Customers

Our leasing and technology sales business requires sufficient amounts of debt and equity capital to fund our equipment purchases. If the credit quality of our customer base materially decreases, or if we experience a material increase in our credit losses, we may find it difficult to continue to obtain the capital we require and our business, operating results and financial condition may be harmed. In addition to the impact on our ability to attract capital, a material increase in our delinquency and default experience would itself have a material adverse effect on our business, operating results and financial condition. Our lenders have reduced their demand for non-investment grade leases which has made financing lower credit customers more difficult or impossible in some cases.

## Table of Contents

### Changes in the IT Industry and/or Rapid Changes in Product Standards May Result in Substantial Inventory Obsolescence and May Reduce Demand for the IT Hardware, Software and Services We Sell

Our results of operations are influenced by a variety of factors, including the condition of the IT industry, shifts in demand for, or availability of, IT hardware, software, peripherals and services, and industry introductions of new products, upgrades or methods of distribution. The IT industry is characterized by rapid technological change and the frequent introduction of new products, product enhancements and new distribution methods or channels, each of which can decrease demand for current products or render them obsolete. Sales of products and services can be dependent on demand for specific product categories, and any change in demand for or supply of such products could have a material adverse effect on our net sales and/or cause us to record write-downs of obsolete inventory, if we fail to react in a timely manner to such changes.

### We May Not Reserve Adequately for Our Credit Losses

Our reserve for credit losses reflects management's judgment of the loss potential of our lease portfolio and accounts receivable. Our management bases its judgment on the nature and financial characteristics of our obligors, general economic conditions and our bad debt experience. We also consider delinquency rates and the value of the collateral underlying the finance receivables. We cannot be certain that our consolidated reserve for credit losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy or events adversely affecting specific customers, industries or markets. If our reserves for credit losses are not adequate, our business, operating results and financial condition may suffer.

### We Rely on Inventory and Accounts Receivable Financing Arrangements

The loss of the technology sales business segment's 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 the operational function of our accounts payable process. Our credit agreement contains various net worth and debt covenants that must be met each quarter. There can be no assurance that we will continue to meet those debt covenants and failure to do so may limit availability of, or cause us to lose, such financing. There can be no assurance that such financing will continue to be available to us in the future on acceptable terms.

### We May Not Adequately Protect Ourselves Through Our Contract Vehicles or Insurance Policies

We may not properly create contracts to protect ourselves against the risks inherent in our business including, but not limited to, warranties, limitations of liability, human resources and subcontractors, patent and product liability, and financing activities. Despite the non-recourse nature of the loans financing our activities, non-recourse lenders have, in the past, brought suit when the underlying transaction turns out poorly for the lenders. We have vigorously defended such cases in the past and will do so in the future, however, investors should be aware that we are subject to such suits and the cost of defending such suits due to the nature of our business.

### Costs to Protect Our Intellectual Property May Affect Our Earnings

The legal and associated costs to protect our intellectual property may significantly increase our expenses and have a material adverse effect on our operating results. We may deem it necessary to protect our intellectual property rights and significant expenses could be incurred with no certainty of the results of these potential actions. Costs relative to lawsuits are usually expensed in the periods incurred and there is no certainty in recouping any of the amounts expended regardless of the outcome of any action.

### We Face Risks of Claims From Third Parties for Intellectual Property Infringement That Could Harm Our Business

We cannot provide assurance that our products and services do not infringe on the intellectual property rights of third parties. In addition, because patent applications in the United States are not publicly disclosed until the patent is issued, we may not be aware of applications that have been filed which relate to our products or processes. We could incur substantial costs in defending ourselves and our customers against infringement claims. In the event of a claim of infringement, we and our customers may be required to obtain one or more licenses from third parties. We may not be able to obtain such licenses from third parties at a reasonable cost or at all. Defense of any lawsuit or failure to obtain any such required license could significantly increase our expenses and/or adversely affect our ability to offer one or more of our services. In addition, in certain instances, third parties licensing software to us have refused to indemnify us for possible infringement claims.

## Table of Contents

### Capital Spending by Our Customers May Decrease

We rely on our customers to purchase capital equipment from us to maintain or increase our earnings. If there is a further decline in the economy, or an increase in competition, sales of capital equipment may decrease, thus adversely affecting our earnings. As a result of the recent economic turbulence and overall softening in the economy, our customers have generally delayed their investment in capital equipment and we have experienced a decrease in total sales. Continued weakness in the economy could continue to adversely affect our results of operations and cash flows.

### We Face Substantial Competition From Larger Companies As Well As Our Vendors and Financial Partners

In our reseller business, manufacturers may choose to market their products directly to end-users, rather than through resellers such as our company, and this could adversely affect our future sales. In addition, a reduction in the amount of credit granted to us by our vendors and financial partners could increase our need for and cost of working capital and have a material adverse effect on our business, results of operations and financial condition. Many competitors compete principally on the basis of price and may have lower costs or accept lower selling prices than us and, therefore, current gross margins may not be maintainable. In addition, we do not have guaranteed commitments from our customers and, therefore, our sales volume may be volatile.

In our leasing business, we face competition from many sources including much larger companies with greater financial resources. Our competition may even come from some of our vendors or financial partners who choose to market directly to customers. Our competition may lower lease rates in order to increase market share.

### We May Experience A Reduction in the Incentive Programs Offered to Us by Our Vendors

We receive payments and credits from vendors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. These programs are usually of finite terms and may not be renewed or may be changed in a way that has an adverse effect on us. Vendor funding is used to offset, among other things, inventory costs, costs of goods sold, marketing costs and other operating expenses. Certain of these funds are based on our volume of net sales or purchases, growth rate of net sales or purchases and marketing programs. If we do not grow our net sales over prior periods or if we are not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to us by vendors. No assurance can be given that we will continue to receive such incentives or that we will be able to collect outstanding amounts relating to these incentives in a timely manner, or at all. Any sizeable reduction in, the discontinuance of, a significant delay in receiving or the inability to collect such incentives, particularly related to incentive programs with our largest partners, HP and Cisco, could have a material adverse effect on our business, results of operations and financial condition. If we are unable to react timely to any fundamental changes in the programs of vendors, including the elimination of funding for some of the activities for which we have been compensated in the past, such changes would have a material adverse effect on our business, results of operations and financial condition.

### There is a Risk that We Could Lose a Large Customer Without Being Able to Find a Ready Replacement

For the fiscal year 2010, no one customer accounted for 10% or more of our total revenues. Our top twenty-five customers in fiscal year 2010 represented an aggregate of approximately 35.7% of total revenue.

Our contracts for the provision of products are generally non-exclusive agreements that are terminable by either party upon 30 days' notice. Either the loss of any large customer, or the failure of any large customer to pay its accounts receivable on a timely basis, or a material reduction in the amount of purchases made by any large customer could



have a material adverse effect on our business, financial position, results of operations and cash flows.

Table of Contents

**We May Not Be Able to Hire and Retain Personnel That We Need to Succeed**

To increase market awareness and sales of our offerings, we may need to expand our sales operations and marketing efforts in the future. Our products and services require a sophisticated sales effort and significant technical support. For example, our sales and engineering candidates must have highly technical hardware and software knowledge in order to suggest a customized solution for our customers' business processes. Competition for qualified sales, marketing and technical personnel fluctuates depending on market conditions and we might not be able to hire or retain sufficient numbers of such personnel to maintain and grow our business. Increasingly, our competitors are requiring their employees to agree to non-compete and non-solicitation agreements as part of the employment, and this could make it more difficult for us to hire those persons.

**We Do Not Have Long-term Supply or Guaranteed Price Agreements with Our Vendors**

The loss of a key vendor or manufacturer or changes in their policies could adversely impact our ability to sell. In addition, violation of a contract that results in either the termination of our ability to sell the product or a decrease in our certification with the manufacturer could adversely impact our earnings.