EPLUS INC
Form 10-K
February 08, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

xANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2007
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 incorporation or organization)	(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
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value

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

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 x

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 x

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. x

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

Large accelerated filer ¨ Accelerated filer ¨Non-accelerated filer x

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

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, 2006 was $42,229,317. The outstanding number of shares of common stock of ePlus as of December 31, 2007, was 8,231,741.

DOCUMENTS INCORPORATED BY REFERENCE

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

None

Table of Contents

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,” “will,” “should,” “intend,” “estimate,” “believe,” “expect,” “anticipate,” “project” an expressions. Readers are cautioned not to place undue reliance on any forward-looking statements made by or on our behalf. Any such statement speaks only as of the date the statement was made. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update forward-looking statements in future filings or communications regarding our business or operating results, and do not undertake to address how any of the risks and uncertainties described below may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the matters discussed below may have affected past, as well as current, forward-looking statements about future results.

Although we have been offering IT financing since 1990 and direct marketing of IT products since 1997, our comprehensive set of solutions—the bundling of our direct IT sales, professional services and financing with our proprietary software—has been available since 2002. Consequently, we may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by companies providing new and/or bundled solutions in an evolving market. Some of these challenges relate to our ability to:

- manage a diverse product set of solutions in highly-competitive markets;
- increase the total number of customers utilizing bundled solutions by up-selling within our customer base and gain new customers;
- adapt to meet changes in markets and competitive developments;
- maintain and increase advanced professional services by retaining highly-skilled personnel and vendor certifications;
- integrate with external IT systems including those of our customers and vendors; and
- continue to update our software and technology to enhance the features and functionality of our products.

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 —Results of Operations” sections contained elsewhere in this document, as well as any subsequent Reports on Form 10-Q and Form 8-K and other filings with the SEC.

Table of Contents

PART I

ITEM 1. BUSINESS

GENERAL

Our company was founded in 1990 under the name Municipal Leasing Corporation. Subsequently, the name was changed to MLC Group, Inc. In 1996, our company engaged in a holding company reorganization whereby MLC Group became a wholly owned subsidiary of MLC Holdings, Inc., a newly formed Delaware corporation. MLC Holdings, Inc. changed its name to ePlus inc. in 1999.

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 procurement, asset management, and electronic catalog content management software sales and services. Our second segment is our financing business unit that consists of the equipment and financing business to both commercial and government-related entities and the associated business process outsourcing services. See Note 13,"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.;
- eManaged Solutions, 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.

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 through which our IT reseller and technical support conducts business. ePlus Systems, inc. and ePlus Content Services, inc. were incorporated on May 15, 2001 and are the entities that hold certain assets and liabilities originally acquired from ProcureNet, Inc. 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 is the entity that holds certain assets and liabilities originally acquired from Digital Paper Corporation.

Table of Contents

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 their respective country; however, neither entity has conducted any significant business, or has any employees or business locations outside the United States.

ACQUISITIONS

We have acquired the following material entities or assets since April 1, 2004.

Date Acquired	Acquisition	Major Business Locations	Accounting Method	Consideration
May 28, 2004	Certain assets and liabilities from Manchester Technologies, Inc. (merged into ePlus Technology, inc. upon acquisition; subsequently moved the consulting group to ePlus Systems, inc.)	Metro New York, South Florida and Baltimore, MD	Purchase	$5,000,000 in cash and assumptions of certain liabilities

OUR BUSINESS

We have evolved our product set by intermixing our historical leasing and IT product sales business with our proprietary software and business process services over the past five years. Our primary focus is to deliver strategic business value through the use of technology and services. Our current offerings include:

- direct marketing of information technology equipment and third-party software;
- advanced professional services;
- leasing and business process services; and
- 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.

We have been in the business of selling, leasing, financing, and managing information technology and other assets for more than 16 years and have been providing software for more than seven years. We currently derive the majority of our revenues from IT product sales, professional services, and leasing. We sell primarily by using our internal sales force and through vendor relationships to commercial customers; 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. For the customer, we can offer a multi-disciplinary approach for implementing, controlling, and maintaining cost savings throughout their organization, allowing customers to simplify their administrative processes, gain data transparency and visibility, and enhance internal controls and reporting.

Table of Contents

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 solutions, such as OneSource®.

- Advanced Professional Services: We provide an array of internet telephony and internet communications, 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 competitive and tailored leasing and financing options for IT and capital assets. These 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, which can be used as stand-alone solutions or be a component of a bundled solution. These include eProcurement, asset management, document management, and product content management software.

- Consulting Services: ePlus Consulting provides business process consulting, solution definition and implementation, and customer software application design.

Our proprietary software and associated business process services are key functions of supporting and retaining customers for our 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 70,000 target customers in this market. Our target customer has one or more of the following business characteristics that we believe qualify us as a preferred solution:

- desires an integrated provider of products, services, and business processes for the entire indirect supply chain that can be customized to the customer’s specific needs and requirements;
- would benefit from the cost savings and efficiency gains of an integrated solution, including eProcurement, asset management, catalog content functionality, document management and distribution software, electronic bill presentment and payment, and financing;
- seeks a comprehensive solution for its entire supply chain from selection to requisition, purchase, settlement, ownership, financing, and disposal of assets;
- uses leasing to reduce its total cost of ownership of fixed assets and/or proactively manage its fixed asset base over the life of the asset; and
- seeks a lower cost alternative to licensing enterprise software solutions while preserving the investment in legacy IT infrastructures.

Table of Contents

INDUSTRY BACKGROUND

Prior to late 2000, the IT industry experienced strong growth rates as a result of Y2K spending and the emerging Internet industry. Sales of IT products in the following years decreased due to sluggish economic growth, the September 11, 2001 terrorist act, and an overall lengthening of IT replacement cycles. The slowdown in IT spending appeared to begin in the fourth quarter of 2000, and recovery was first evident in the latter half of 2003, which continued in 2004 and 2005. In the leasing business, low historical interest rates combined with healthy corporate earnings from 2003 to late 2005 caused a decline in lease origination volumes throughout the industry. In the current marketplace, we believe demand for IT equipment and services is being driven by the following industry trends:

- We believe there is increased demand for energy efficient data solutions and customers are directing their spending on solutions that reduce energy consumption, footprint, and costs. These solutions include server consolidation and virtualization, advanced internet communications, and replacing older technology with more energy efficient new technology. We have continued to focus our advanced technology solutions and resources in these areas to meet expected customer demand.

- We believe that customers are seeking to reduce their number of solutions providers to improve internal efficiencies, create enhanced accountability and improve supplier management, and reduce costs. We have continued to enhance our relationships with premier manufacturers and gained the engineering 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 believe that customers will 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 client purchasing as evidenced by our development of our various integrated solutions beginning in 1999 (earlier than many other direct marketers) and we continue to believe that our bundled solution set is unsurpassed 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 clients 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 will become the 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, and national 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.

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 are not aware of any competitors in the United States with both the breadth and depth of solution offerings that we have.

Table of Contents

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 in all areas of business against local, regional, and national firms, including banks, specialty finance companies, hedge funds, vendors' captive finance companies, and third-party leasing companies. Banks and large specialty financial services companies sell directly to business clients, particularly larger enterprise clients, 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 clients.

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 clients' 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, dispute resolution, 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 client 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 clients 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.

The software market is in a constant state of change due to overall market acceptance and economic conditions among other factors. There are a number of companies developing and marketing business-to-business electronic commerce solutions targeted at specific vertical markets. Other competitors are also attempting to migrate their technologies to an Internet-enabled platform. Some of these competitors and potential competitors include enterprise resource planning system vendors and other major software vendors that are expected to sell their procurement and asset management products along with their application suites. These enterprise resource planning 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 Procure+®, 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 us. In addition, some of these competitors may be able to respond more quickly to new or changing opportunities, technologies, and client 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 clients, and adopt more aggressive pricing policies than we do.

For a discussion of risks associated with the actions of our competitors, see Item 1A, “Risk Factors” of this Form 10-K.

Table of Contents

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 client base;
- expanding our client base;
- making strategic acquisitions;
- expanding our professional services offerings;
- strengthening vendor relationships; and
- expanding the functionality of our Internet offerings, especially OneSource®.

Selling Additional Products and Services to Our Existing Client 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 offering is an important differentiating factor from our competitors.

In 2006, we rolled out a new software portal called OneSource®, which is an integrated order entry platform that we expect will enhance product sales, increase incremental sales, and reduce costs by eliminating touch-points for order automation.

Expanding Our Client 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 client 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.

Expand Advanced Professional Service Offerings

Since 2004, we have focused on gaining engineering certifications and advanced professional services expertise in advanced technologies of strategic vendors, such as Cisco Systems, IBM, HP, and Network Appliance. We are especially focused on internet working, 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.

Table of Contents

Strengthening Vendor Relationships

We believe it is important to maintain relationships with key manufacturers such as HP, IBM, Cisco, and Network Appliances 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 the tactical level, by having more than 31 locations, we are able to maintain direct relationships with key sales and marketing personnel, who provide referral sales opportunities that are unavailable to Internet-only and catalog-based direct marketers.

Expand the functionality 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

Our software has been acquired from third-party vendors or has been developed by us. In earlier stages of our development, we relied heavily on licensed software and outsourced development, but with the acquisition of the software products and the hiring of the employees obtained from the acquisition of ProcureNet, Inc. on May 15, 2001, Digital Paper Corporation on October 10, 2003, and the consulting arm of Manchester Technologies, Inc. on May 28, 2004, much of our current software development is handled by us. We have also outsourced certain programming tasks to a highly specialized offshore development company. We market both software that we own and software that we have obtained perpetual license rights and source code from a third party. Subject to certain exceptions, we generally retain the source code and intellectual property rights of the customized software.

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;
- on-demand, hosted, or subscription; and
- software-as-a-service, 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 costs to maintain a competitive advantage in this market.

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 70,000 potential customers in our target market. We undertake many of our direct marketing campaigns and target certain markets in conjunction with our primary vendor partners, who may provide financial reimbursement, outsourced services, and personnel to us in these efforts.

Our sales representatives are compensated primarily on a commission basis. 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.

Table of Contents

As of March 31, 2007, our sales force was organized regionally in 31 office locations throughout the United States. See Item 2, “Properties” of this Form 10-K for additional office location information. As of March 31, 2007 our sales organization included 246 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 three electronic sourcing system patents, two catalog management patents, and three image transmission management patents in the United States, among others. We have a counterpart of the electronic sourcing system patents in nine European forums, and of the image transmission management patents in four additional different countries. 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 any 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. We also have the following registered service/trademarks: ePlus, ePlusSuite, Procure+, Manage+, Service+, Finance+, ePlus Leasing, International Computer Networks, Docpak, Simply Faster, Viewmark, Digital Paper, Intranetdocs, OneSource, Content+, eECM, ICN, and ePlus Enterprise Cost Management. We also 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 can 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, leasing, financing, providing procurement, document management and asset management software and managing information technology and various other assets for over ten years and currently derive the majority of our revenues from such activities.

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 larger manufacturer relationships include HP, IBM, Cisco, and Microsoft Corporation. Tech Data and Ingram Micro, Inc. are our largest distributors. 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 a 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 to a minimum. The products we sell typically have payment account terms ranging from due upon delivery up to a maximum 90 days to pay, depending on the customer’s credit and payment structuring.

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. 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, medical equipment, industrial-related machinery and equipment, office furniture and general office equipment, transportation equipment, and other general business equipment.

Table of Contents

In anticipation of the expiration of the initial term of a lease, we initiate the remarketing process for the related equipment. Our goal is to maximize revenues on 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 or leasing the equipment to an equipment broker or 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 all of 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 contract origination and management, cash management, servicing, collections, remarketing and accounting. Whenever possible and financially prudent, we use non-recourse financing (which is limited to the underlying equipment and the specific lessee 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. We try to obtain commitments for these asset sales before asset origination in a financing transaction. 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 protect against entering into lease transactions that may have undesirable financial terms or unacceptable levels of 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 on many of the items that we lease, sell and service. We rely on our experience or outside opinions in the process of setting and adjusting our sale prices, lease rate factors and the residual values.

Default and Loss Experience. During the fiscal year ended March 31, 2006, we increased reserves for credit losses by $0.5 million, and incurred actual credit losses of $0.8 million. During the fiscal year ended March 31, 2007, we reduced reserves for credit losses by $0.6 million, and incurred actual credit losses of $0.7 million.

Table of Contents

EMPLOYEES

As of March 31, 2007, we employed 649 full-time and part-time employees who operated through 31 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	246
Technical Support	123
Administration	184
Software and Implementations	88
Executive	8

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, 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. The contents of 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.

Table of Contents

ITEM 1A. RISK FACTORS

We Have Received Inquiries Related to Our Historical Stock Option Grant Practices.

As described elsewhere herein, we are involved in a shareholder derivative action in connection with certain historical stock option grants. We have filed a motion to dismiss the plaintiff's amended complaint. In June 2006, our Audit committee commenced a voluntary investigation (the "Audit Committee Investigation" or "Investigation") of our historical practices related to stock option grants. In August 2006, we filed a Form 8-K which disclosed that based on its review and assessment, the Audit Committee preliminarily concluded that the appropriate measurement dates for determining the accounting treatment for certain stock options we granted differ from the recorded measurement dates used in preparing our Consolidated Financial Statements. Accordingly, it was further disclosed that we would restate our previously issued financial statements for the fiscal years ended March 31, 2004 and 2005, as well as previously reported interim financial information, to reflect additional non-cash charges for stock-based compensation expense and the related tax effects in certain reported periods. The Form 10-K for the year ended March 31, 2006 which included the restated financial statements for the years ended March 31, 2004 and 2005 was filed on August 16, 2007. Also, in August 2006, the Audit Committee voluntarily contacted and advised the staff of the SEC of its Investigation and the Audit Committee's preliminary conclusion that a restatement would be required. The staff of the SEC opened an informal inquiry.

We have cooperated and intend to continue to cooperate with the SEC. The inquiry of the staff of the SEC may look at the accuracy of the stated dates of our historical option grants, our disclosures regarding executive compensation, whether all proper corporate and other procedures were followed, and whether our historical financial statements are materially accurate and other issues. Counsel for the Audit Committee also received an inquiry from the Office of the United States Attorney for the Eastern District of Virginia in October 2006. We are currently being audited by the Internal Revenue Service ("IRS"). In connection with this audit, the IRS has requested information concerning stock options. Regardless of the outcome of these inquiries and the derivative action, we may continue to incur substantial costs, which could have a material adverse effect on our financial condition and results of operations. In addition, it is possible that other governmental or regulatory agencies may undertake inquiries with respect to our historical option grants. Such inquiries could lead to formal proceedings against us, as well as our officers and/or directors. We cannot provide assurance that the SEC or the IRS will (i) agree with the manner in which we have accounted for and reported, or not reported, the financial and tax impacts, or (ii) not find inappropriate activity in connection with our historical stock option practices. If the SEC or the IRS disagrees with our financial or tax adjustments and such disagreement results in material changes to our historical financial statements, we may have to further restate our prior financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

Because We Did Not File Our Periodic Reports With the SEC on a Timely Basis, Our Common Stock Was Delisted From The Nasdaq Global Market.

Due to the findings of the Audit Committee Investigation and the resulting restatement, we did not file any of our periodic reports with the SEC on a timely basis since we last filed our Quarterly Report on Form 10-Q for the quarter ended December 31, 2005. Consequently, our common stock was delisted from the Nasdaq Global Market on July 20, 2007. As a result, the price of our stock and the ability of our stockholders to trade in our stock may be adversely affected. When we file our Forms 10-Q for the periods ended June 30, 2007 and September 30, 2007, we will be current with SEC reporting requirements. We cannot determine how long it will take for us to regain compliance with the Nasdaq listing requirements and reapply for listing of our common stock. Since we are not current in our filings with the SEC, we are subject to a number of restrictions regarding the registration of our stock under federal securities laws, and we may not be able to issue stock options or other equity awards to our employees or allow them to exercise their outstanding options, which could adversely affect the retention of executive management, our business and our results of operations.

Table of Contents

Our Assessment As to the Adequacy of Our Internal Control Over Financial Reporting As Required by Section 404 of the Sarbanes-Oxley Act of 2002 May Cause Our Operating Expenses to Increase. If We Are Unable to Certify the Adequacy of Our Internal Controls, Investors Could Lose Confidence in the Reliability of Our Financial Statements, Which Could Result in a Decrease in the Value of Our Common Stock.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report from management on internal control over financial reporting in their annual reports on Form 10-K. We expect that these rules relating to management's report on internal control over financial reporting will first apply to us with respect to our fiscal year ending March 31, 2008, and the rules related to our auditor's attestation report, to our fiscal year ending March 31, 2009. To comply with the Sarbanes-Oxley Act and the SEC's new rules and regulations, we are evaluating our internal control systems and taking remedial actions to allow management to report on, and our independent auditors to attest to, our internal control over financial reporting. As a result, we have incurred expenses, and expect to incur additional expenses, and diversion of management's time and attention from the daily operations of the business, which may increase our operating expenses and impair our ability to sustain profitability based on accounting principles generally accepted in the United States ("U.S. GAAP"). There can be no assurance that we will be able to maintain our schedule to complete all assessment and testing in a timely manner and, if we do not, that we will have the resources available to complete necessary assessment and reporting on internal controls on a timely basis. Further, we cannot be certain that our testing of internal control and resulting remediation actions will yield adequate internal control over financial reporting as required by Section 404. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, there could be an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could adversely affect the market price of our common stock.

We Have Identified a Material Weakness Related to the Cut-off and Recognition of Service Sales and Accrued Liabilities and Concluded that Our Internal Control Over Financial Reporting was not Effective as of March 31, 2007.

We have identified a material weakness related to the cut-off and recognition of service sales and accrued liabilities and, as a result, have concluded that our internal control over financial reporting as of March 31, 2007 was not effective. Remediation of this material weakness may be costly and time consuming. Inability to maintain effective internal control over financial reporting could adversely affect our financial results, the market price of our common stock or our operations.

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.

We May Not Reserve Adequately for Our Credit Losses.

Our reserve for credit losses reflects management's judgment of the loss potential. 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.

Table of Contents

We Rely on Inventory and Accounts Receivable Financing Arrangements.

The loss of the technology sales 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 for our accounts payable process.

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 such suits are normal risks, and the cost of defense are normal cost 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.

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 downward turn in the economy, or an increase in competition, sales of capital equipment may decrease, thus adversely affecting our earnings.

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

In our reseller business, direct marketing to end-users by manufacturers, rather than through resellers such as us, may adversely affect future sales. Many competitors compete principally on the basis of price and may have lower costs 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 gain additional business.

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. 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.

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.

We May Not Have Designed Our Information Technology Systems to Support Our Business Without Failure.

We are dependent upon the reliability of our information, telecommunication and other systems, which are used for sales, distribution, marketing, purchasing, inventory management, order processing, customer service and general accounting functions. Interruption of our information systems, Internet or telecommunications systems could have a material adverse effect on our business, financial condition, cash flows or results of operations.

Our Earnings May Fluctuate.

Our earnings are susceptible to fluctuations for a number of reasons, including the seasonal and cyclical nature of our customers' procurement patterns. Our earnings will continue to be affected by fluctuations in our historical business, such as lower sales of equipment, increased direct marketing by manufacturers rather than through distributors, reductions in realized residual values, fluctuations in interest rates, and lower overall sales activity. In the event our revenues or earnings are less than the level expected by the market in general, such shortfall could have an immediate and significant adverse impact on the market price of our common stock.

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

We lease various types of equipment to customers through two distinct types of transactions: capital leases and operating leases. The duration of an operating lease is shorter relative to the equipment's useful life. We bear a greater risk in operating leases in that we may not be able to remarket the equipment on terms that will allow us to fully recover our investment.

At the inception of each lease, we estimate the fair market value of the item as a residual value for the leased equipment based on the terms of the lease contract. A decrease in the market value of such equipment at a rate greater than the rate we expected, whether due to rapid technological obsolescence or other factors, would adversely affect the residual values of such equipment. Any such loss, which is considered by management to be other than temporary in nature, would be recognized in the period of impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases." Consequently, there can be no assurance that our estimated residual values for equipment will be realized.

Our Ability to Consummate and Integrate Acquisitions May Materially and Adversely Affect Our Profitability if We Fail to Achieve Anticipated Revenue Improvements and Cost Reductions.

Our ability to successfully integrate the operations we acquire and leverage these operations to generate revenue and earnings growth will significantly impact future revenue and earnings. Integrating acquired operations is a significant challenge and there is no assurance that we will be able to manage the integrations successfully. Failure to successfully integrate acquired operations may adversely affect our cost structure thereby reducing our margins and return on investment. In addition, we may acquire entities with unknown liabilities, fraud, cultural or business environment issues or that may not have adequate internal controls as required by Section 404 of the Sarbanes-Oxley Act of 2002.

Table of Contents

If We Are Unable to Protect Our Intellectual Property, Our Business Will Suffer.

The success of our business strategy depends, in part, upon proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, trademark, patent and trade secret laws and contractual provisions with our subcontractors to protect our proprietary technology. It may be possible for unauthorized third parties to copy certain portions of our products or reverse engineer or obtain and use information that we regard as proprietary. Some of our agreements with our customers and technology licensors contain residual clauses regarding confidentiality and the rights of third parties to obtain the source code for our products. These provisions may limit our ability to protect our intellectual property rights in the future that could seriously harm our business and operating results. We cannot provide assurance that our means of protecting our intellectual property rights will be adequate.

Future Changes in Financial Accounting Standards or Practices or Existing Taxation Rules or Practices may Cause Adverse Unexpected Revenue Fluctuations and Affect Our Reported Results of Operations.

A change in accounting standards or practices or a change in existing taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation practices have occurred and may occur in the future. In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109,” or FIN 48, which clarifies the accounting for uncertainty in income tax positions. This interpretation requires that we recognize in our financial statements the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for our fiscal year ending March 31, 2008, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to beginning retained earnings in the first quarter of fiscal 2008. The adoption of FIN 48 may have significant impact to our results of operations. We are currently assessing the impact that this interpretation will have on our Consolidated Financial Statements.

The Limited Operating History of Our e-Commerce Related Products and Services Makes It Difficult to Evaluate Our Business and Our Prospects.

Our comprehensive set of solutions, introduced in May 2002, has had a limited operating history. As a result, we expect to encounter some of the challenges, risks, difficulties and uncertainties frequently encountered by early-stage companies using new and unproved business models in rapidly evolving markets. Some of these challenges relate to our ability to:

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

The Electronic Commerce Business-to-Business Solutions Market Is Highly Competitive and We Cannot Provide Assurance That We Will Be Able to Compete Effectively.

The market for Internet-based, business-to-business electronic commerce solutions is extremely competitive. We expect competition to intensify as current competitors expand their product offerings and new competitors enter the market. We cannot provide assurance that we will be able to compete successfully against current or future competitors, or that competitive pressures faced by us will not harm our business, operating results or financial condition. In addition, the market for electronic procurement solutions is relatively new and evolving. Our strategy of providing an Internet-based electronic commerce solution may not be successful, or we may not execute it effectively. Accordingly, our solution may not be widely adopted by businesses.

Table of Contents

Because there are relatively low barriers to entry in the electronic commerce market, competition from other established and emerging companies may develop in the future. Increased competition is likely to result in reduced margins, longer sales cycles and loss of market share, any of which could materially harm our business, operating results or financial condition. The business-to-business electronic commerce solutions offered by our competitors now or in the future may be perceived by buyers and suppliers as superior to ours. Our current or future competitors may have more experience developing Internet-based software and end-to-end purchasing solutions. They may also have greater technical, financial, marketing and other resources than we do. As a result, competitors may be able to develop products and services that are superior, achieve greater customer acceptance or have significantly improved functionality as compared to our products and services.

Over the long term, we expect to derive more revenues from our software, which is unproven. We expect to incur significant sales and marketing, and general and administrative expenses in connection with the development of this area of our business. These expected expenses may have a material adverse effect on our future operating results as a whole.

If Our Products Contain Defects, Our Business Could Suffer.

Products as complex as those used to provide our electronic commerce solutions often contain unknown and undetected errors or performance problems. Many serious defects are frequently found during the period immediately following introduction of new products or enhancements to existing products. Undetected errors or performance problems may not be discovered in the future and errors considered by us to be minor may be considered serious by our customers. This could result in lost revenues, delays in customer acceptance or unforeseen liabilities that would be detrimental to our reputation and to our business.

If We Publish Inaccurate Catalog Content Data, Our Business Could Suffer.

Any defects or errors in catalog content data could harm our customers or deter businesses from participating in our offering, damage our business reputation, harm our ability to attract new customers, and potentially expose us to legal liability. In addition, from time to time some participants in bundled services could submit to us inaccurate pricing or other catalog data. Even though such inaccuracies are not caused by our work and are not within our control, such inaccuracies could deter current and potential customers from using our products.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents

ITEM 2. PROPERTIES

As of March 31, 2007, we operated from 31 office locations, all of which are leased. Our total leased square footage as of March 31, 2007, was approximately 160 thousand square feet for which we incurred rent expense of approximately $214 thousand per month. Some of our companies operate in shared office space to improve sales, marketing and cost efficiency. Some sales and technical service personnel operate from either residential offices or space that is provided for by another entity or are located on a customer site. The following table identifies our largest locations, the number of current employees as of March 31, 2007, the square footage and the general office functions.

Location	Company	Employees	Square Footage	Function
Herndon, VA	ePlus Group, inc. ePlus Technology, inc. ePlus Government, inc. ePlus Document Systems, inc.	251	50,232	Corporate and subsidiary headquarters, sales office, technical support and, warehouse
Pittsford, NY	ePlus Systems, inc.	54	9,155	Sales office and technical development
Pottstown, PA	ePlus Technology, inc.	43	14,303	Sales office, technical support and warehouse
Sunnyvale, CA	ePlus Technology, inc.	35	11,200	Sales office, technical support and warehouse
Hauppauge, NY	ePlus Technology, inc.	25	8,370	Sales office, technical support and warehouse
Hamilton, NJ	ePlus Technology, inc.	26	8,000	Sales office and technical support
Canton, MA	ePlus Technology, inc.	29	6,228	Sales office and technical support
New York, NY	ePlus Technology, inc.	16	5,121	Sales office and technical support
Wilmington, NC	ePlus Technology, inc.	21	4,000	Sales office and technical support
Elkridge, MD	ePlus Technology, inc.	15	5,092	Sales office and technical support
Raleigh, NC	ePlus Group, inc. ePlus Technology, inc.		198,428	Sales office-shared, technical support and warehouse
Houston, TX	ePlus Content Services, inc.	26	11,547	Subsidiary headquarters, sales office and technical support
Avon, CT	ePlus Systems, inc.	8	2,345	Subsidiary headquarters, sales office and technical development
Boca Raton, FL	ePlus Technology, inc.	4	3,214	Sales office and technical support

Other Office Locations	33	12,801	Sales offices and technical support
Home Offices/Customer Sites	44		

Our largest office location is in Herndon, VA, which has a lease expiration date of December 31, 2009.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

Cyberco Related Matters

We have been involved in several matters which are described below, arising from four separate installment sales to a customer named Cyberco Holdings, Inc. (“Cyberco”). The Cyberco principals were perpetrating a scam, which victimized several dozen leasing and lending institutions. Five Cyberco principals have pled guilty to criminal conspiracy and/or related charges including bank fraud, mail fraud and money laundering. Cyberco, related affiliates, and at least one principal are in Chapter 7 bankruptcy. No future payments are expected from Cyberco, and at this time, the bankruptcy estate is anticipated to have insignificant funds.

In a bankruptcy adversarial complaint filed on December 7, 2006 in the United States Bankruptcy Court for the Western District of Michigan, the bankruptcy trustee filed a claim against ePlus Group, inc. alleging certain payments in the amount of approximately $775 thousand by Cyberco were preferential transfers. On or about January 11, 2008, ePlus and the bankruptcy trustee entered into a settlement agreement pursuant to which ePlus will make a payment to the trustee in the amount of $95 thousand. On January 16, 2008, the bankruptcy trustee filed a motion seeking court approval of the settlement and dismissal of the adversary proceeding. We accrued this liability in the period ended March 31, 2007.

On January 4, 2005, we filed suit in the United States District Court for the Southern District of New York against our insurance carrier, Travelers Property Casualty Company of America (“Travelers”), seeking a declaratory judgment that any potential liability for claims made against ePlus by two lenders who financed the transaction, GMAC Commercial Finance, LLC (“GMAC”) and Banc of America Leasing and Capital, LLC (“BoA”), is covered by our insurance policy with Travelers. The BoA claims are described below, and in July 2006 we settled a similar claim by GMAC for $6 million. On February 9, 2006, the court granted summary judgment for Travelers, determining that our claim was not covered by our insurance policies. A final judgment was entered on or about October 25, 2006, and ePlus timely appealed to the United States Court of Appeals for the Second Circuit. Oral argument is scheduled for March 2008. The ultimate decision on insurance coverage will apply to the claims filed against us by both underlying lenders, GMAC and BoA. We believe that our position asserting insurance coverage is correct, but we cannot predict the outcome on this appeal.

On May 10, 2005, BoA filed a lawsuit against ePlus Group, inc. in the Circuit Court for Fairfax County, Virginia. BoA funded one of the Cyberco sales in exchange for an assignment of the payment stream, and after Cyberco went into bankruptcy, BoA sought to recover its loss of approximately $3.1 million plus interest. On September 14, 2006 a jury verdict found in favor of BoA, and awarded BoA $3.0 million plus interest of $396 per day beginning December 22, 2004. On or about February 6, 2007, a final judgment was entered, which also awarded BoA $871 thousand in attorneys’ fees. The judgment, fees and applicable interest was accrued in the period ended March 31, 2006. We paid the total judgment, including interest and fees, of $4.3 million in two payments, the last of which was made on June 15, 2007.

In addition, BoA filed a lawsuit against ePlus inc. on November 3, 2006 in the Circuit Court for Fairfax County, Virginia, seeking to enforce a guaranty in which ePlus inc. guaranteed ePlus Group, inc.’s obligations to BoA relating to the Cyberco transaction. ePlus Group has already paid to BoA the judgment in the Fairfax County lawsuit referenced above. The suit against ePlus inc. seeks attorneys’ fees BoA incurred in ePlus Group’s appeal of BoA’s suit against ePlus Group referenced above, expenses that may be incurred in a bankruptcy adversary proceeding relating to Cyberco, attorneys’ fees incurred by BoA in defending a pending suit by ePlus Group against BoA, and any other costs or fees relating to any of the described matters. We cannot predict the outcome of this suit.

On January 12, 2007, ePlus Group, inc. filed a complaint against BoA in the Superior Court of California, County of San Diego, seeking relief on matters not adjudicated in the Virginia state court action referenced above. While we believe that we have a basis for our claims to recover certain of our losses related to the Cyberco matter, we cannot predict whether we will be successful in our claim for damages, whether any award ultimately received will exceed the costs incurred to pursue this matter or how long it will take to bring this matter to resolution.

Table of Contents

On June 22, 2007, ePlus Group, inc. and two other Cyberco victims filed suit in the United States District Court for the Western District of Michigan against The Huntington National Bank. The complaint alleges counts of aiding and abetting fraud, aiding and abetting conversion, and statutory conversion. While we believe that we have a basis for our claims to recover certain of our losses related to the Cyberco matter, we cannot predict whether we will be successful in our claim for damages, whether any award ultimately received will exceed the costs incurred to pursue this matter or how long it will take to bring this matter to resolution.

Other Matters

On January 18, 2007 a shareholder derivative action related to stock option practices was filed in the United States District Court for the District of Columbia. The amended complaint names ePlus inc. as nominal defendant, and personally names eight individual defendants who are directors and/or executive officers of ePlus inc. The amended complaint alleges violations of federal securities law, and various state law claims such as breach of fiduciary duty, waste of corporate assets and unjust enrichment. The amended complaint seeks monetary damages from the individual defendants and that we take certain corrective actions relating to option grants and corporate governance, and attorneys' fees. We have filed a motion to dismiss the amended complaint. We cannot predict the outcome of this suit.

On December 11, 2006, ePlus inc. and SAP America, Inc. and its German parent, SAP AG (collectively, "SAP") entered into a Patent License and Settlement Agreement (the "Agreement") to settle a patent lawsuit between the companies which was filed on April 20, 2005. Under the terms of the Agreement, we licensed to SAP our existing patents in exchange for a one-time cash payment of $17.5 million, which was paid on January 16, 2007. No royalties or additional payments of any kind are required to keep this Agreement in full force. We are not engaged in licensing patents in the normal course of our business and do not perform research and development activities to obtain patentable processes or products; however, we may patent our existing business processes or products. We do not anticipate incurring any additional costs arising as a result of this Agreement and there are no further actions that are required to be taken by us. In addition, SAP has agreed not to pursue legal action against us for patent infringement as to any of our current lines of business on any of SAP's patents for a period of five years. The Agreement also provides for general release, indemnification for its violation, and dismisses the existing litigation with prejudice. We accrued for the Agreement in the quarter ended December 31, 2006 in patent settlement income on the accompanying Consolidated Statements of Operations.

As previously disclosed, on February 7, 2005, Ariba, Inc. was found liable by a jury for willfully infringing three U.S. patents held by us. On February 12, 2005, we settled the patent-infringement suit through a settlement and license agreement (the "Settlement Agreement"). The Settlement Agreement provided that we receive, by March 31, 2005, a total of $37 million for the license of our patents. We have no future obligations under the Settlement Agreement. No royalties or additional payments of any kind are required to keep this Agreement in full force. We are not engaged in licensing patents in the normal course of our business and do not perform research and development activities to obtain patentable processes or products; however, we may patent our existing business processes or products. We do not anticipate incurring any additional costs arising as a result of this Agreement and there are no further actions that are required to be taken by us. We accrued for the Settlement Agreement in the quarter ended March 31, 2005 in patent settlement income on the accompanying Consolidated Statements of Operations.

We are currently engaged in a dispute with the government of the District of Columbia ("DC") regarding personal property taxes on property we financed for our customers. DC is seeking approximately $508 thousand, plus interest and penalties, relating to property we financed for our customers. We believe the tax is owed by our customers, and are seeking resolution in DC's Office of Administrative Hearings. We cannot predict the outcome of this matter. While management does not believe this matter will have a material effect on its financial condition and results of operations, resolution of this dispute is ongoing.

There can be no assurance that these or any existing or future litigation arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, consolidated financial position, or results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

At the time of filing this Annual Report on Form 10-K, our common stock is traded over the counter on the Pink Sheets under the symbol "PLUS.PK". During the two fiscal years ended March 31, 2007, our common stock traded on The Nasdaq Global Market under the symbol "PLUS." The following table sets forth the range of high and low sale prices for our common stock during each quarter of the two fiscal years ended March 31, 2007.

Quarter Ended	High	Low
Fiscal Year 2006		
June 30, 2005	$ 14.00	$ 10.26
September 30, 2005	$ 13.89	$ 11.23
December 31, 2005	$ 14.94	$ 12.61
March 31, 2006	$ 14.94	$ 13.25
Fiscal Year 2007		
June 30, 2006	$ 14.89	$ 11.14
September 30, 2006	$ 11.34	$ 8.92
December 31, 2006	$ 11.54	$ 9.83
March 31, 2007	$ 11.24	$ 10.34

On December 31, 2007, the closing price of our common stock was $9.67 per share. On December 31, 2007, there were 157 shareholders of record of our common stock. We believe there are over 400 beneficial holders of our common stock.

As described in Note 17, "Subsequent Event" in the Consolidated Financial Statements included elsewhere in this report, effective at the opening of business on Friday, July 20, 2007, our common stock was delisted from The Nasdaq Global Market. Our common stock was delisted because we were out of compliance with Nasdaq Rule 4310(c)(14), which requires the timely filing of reports with the SEC. We are committed to regaining compliance with all filing requirements and obtaining relisting of our common stock on Nasdaq as soon as possible.

DIVIDEND POLICIES AND RESTRICTIONS

Holders of our common stock are entitled to dividends if and when declared by our Board of Directors ("Board") out of funds legally available. We have never paid a cash dividend to stockholders. We have retained our earnings for use in the business. There is also a contractual restriction on our ability to pay dividends. Our leasing business credit facility restricts dividends to 50% of net income accumulated after September 30, 2000. Therefore, the payment of cash dividends on our common stock is unlikely in the foreseeable future. Any future determination concerning the payment of dividends will depend upon the elimination of this restriction and the absence of similar restrictions in other agreements, our financial condition, results of operations and any other factors deemed relevant by our Board.

Table of Contents

PURCHASES OF OUR COMMON STOCK

The following table provides information regarding our purchases of ePlus inc. common stock during the fiscal year ended March 31, 2007:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1, 2006 through April 30, 2006	62,400	$ 14.32	62,400	688,704(2)
May 1, 2006 through May 31, 2006	122,900	$ 13.65	122,900	599,104(3)
June 1, 2006 through June 30, 2006	23,700	$ 13.01	23,700	603,904(4)
July 1, 2006 through March 31, 2007	-	-	-	-(5)

(1) All shares acquired were in open-market purchases.

(2) The share purchase authorization in place for the month ended April 30, 2006 had purchase limitations on both the number of shares (3,000,000) as well as a total dollar cap ($12.5 million). As of April 30, 2006, the remaining authorized dollar amount to purchase shares was $9.86 million and, based on April's average price per share of $14.320, the maximum number of shares that may yet be purchased is 688,704.

(3) The share purchase authorization in place for the month ended May 31, 2006 had purchase limitations on both the number of shares (3,000,000) as well as a total dollar cap ($12.5 million). As of May 31, 2006, the remaining authorized dollar amount to purchase shares was $8.18 million and, based on May's average price per share of $13.653, the maximum number of shares that may yet be purchased is 599,104.

(4) The share purchase authorization in place for the month ended June 30, 2006 had purchase limitations on both the number of shares (3,000,000) as well as a total dollar cap ($12.5 million). As of June 30, 2006, the remaining authorized dollar amount to purchase shares was $7.86 million and, based on June's average price per share of $13.009, the maximum number of shares that may yet be purchased is 603,904.

(5) No stock repurchases occurred during this period.

The timing and expiration date of the stock repurchase authorizations are included in Note 10, “Stock Repurchase” to our Consolidated Financial Statements.

Table of Contents

PERFORMANCE GRAPH

The following graph shows the cumulative total return as of March 31, 2007 of a $100 investment made on March 31, 2002 in our common stock (with dividends, if any, reinvested), as compared with similar investments based on (1) the value of the Dow Jones Wilshire MicroCap, NASDAQ Financial, NASDAQ Composite and Down Jones Wilshire SmallCap. The peer group was determined by considering market cap and NASDAQ composites. The stock performance shown below is not necessarily indicative of future performance.

	3/02	3/03	3/04	3/05	3/06	3/07
ePlus inc.	100.00	75.87	136.67	122.97	149.95	111.49
NASDAQ Composite	100.00	72.11	109.76	111.26	132.74	139.65
Dow Jones Wilshire MicroCap	100.00	87.14	172.43	172.26	216.43	221.79
Dow Jones Wilshire SmallCap	100.00	75.37	124.70	134.62	169.50	182.73
NASDAQ Financial	100.00	130.35	200.32	217.21	232.52	254.40

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The Selected Consolidated Financial Data set forth below should be read in conjunction with our Consolidated Financial Statements and related Notes thereto and the information included under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1, "Business." The selected financial data for the fiscal years ended March 31, 2005, 2006 and 2007 are included in the Consolidated Financial Statements herein. The selected financial data for the fiscal years ended March 31, 2003 and 2004 have been included in our previously filed Forms 10-K.

ePLUS INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA
(Dollar amounts in thousands, except per share data)

	Year Ended March 31,				
	2003	2004	2005	2006	2007
CONSOLIDATED STATEMENTS OF OPERATIONS					
Revenues:					
Sales of product and services	$ 228,770	$ 267,899	$ 480,970	$ 583,068	$ 701,237
Sales of leased equipment	6,096	-	-	1,727	4,455
Lease revenues	50,520	51,254	46,344	49,160	54,699
Fee and other income	14,260	11,405	11,485	13,363	13,720
Patent settlement income	-	-	37,000	-	17,500
Total revenues	299,646	330,558	575,799	647,318	791,611
Costs and Expenses:					
Cost of sales, product and services	201,277	236,283	432,838	524,967	622,501
Cost of sales, leased equipment	5,892	-	-	1,690	4,360
Direct lease costs	6,582	10,561	11,445	16,695	20,291
Professional and other fees	3,188	3,701	9,417	6,695	16,175
Salaries and benefits	43,927	42,349	54,335	62,308	70,888
General and administrative expenses	14,499	14,631	18,253	18,603	17,165
Litigation settlement and judgment	-	-	-	10,176	-
Interest and financing costs	8,316	6,894	5,877	7,250	10,125
Total costs and expenses	283,681	314,419	532,165	648,384	761,505
Earnings (loss) before provision for income taxes	15,965	16,139	43,634	(1,066)	30,106
Provision for (benefit from) income taxes	6,622	6,647	17,928	(545)	12,729
Net earnings (loss)	$ 9,343	$ 9,492	$ 25,706	$ (521)	$ 17,377
Net earnings (loss) per common share—Basic	$ 0.93	$ 1.02	$ 2.89	$ (0.06)	$ 2.11
Net earnings (loss) per common share—Diluted	$ 0.92	$ 0.95	$ 2.73	$ (0.06)	$ 2.04
Weighted average shares outstanding—Basic	10,060,179	9,333,388	8,898,296	8,347,727	8,224,929
Weighted average shares outstanding—Diluted	10,108,211	9,976,822	9,409,119	8,347,727	8,534,608

Table of Contents

ePLUS INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA
(Dollar amounts in thousands)

	As of March 31,				
	2003	2004	2005	2006	2007
CONSOLIDATED BALANCE SHEETS					
Assets:					
Cash and cash equivalents	$ 27,784	$ 25,155	$ 38,852	$ 20,697	$ 39,680
Accounts receivable—net	38,385	51,189	93,555	103,060	110,662
Notes receivable	53	52	115	330	237
Inventories	1,373	900	2,117	2,292	6,851
Investment in leases and leased equipment—net	181,659	185,545	188,856	205,774	217,170
Other assets	29,177	30,239	36,633	41,792	43,530
Total assets	$ 278,431	$ 293,080	$ 360,128	$ 373,945	$ 418,130
Liabilities:					
Accounts payable	$ 28,314	$ 39,404	$ 55,499	$ 73,657	$ 83,796
Salaries and commissions payable	620	584	771	4,124	4,331
Recourse notes payable	2,736	6	6,265	6,000	5,000
Non-recourse notes payable	116,255	117,857	114,839	127,973	148,136
Other liabilities	19,938	22,777	49,429	33,615	30,668
Total liabilities	167,863	180,628	226,803	245,369	271,931
Stockholders’ equity	110,568	112,452	133,325	128,576	146,199
Total liabilities and stockholders’ equity	$ 278,431	$ 293,080	$ 360,128	$ 373,945	$ 418,130

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations ("financial review") of ePlus is intended to help investors understand our company and our operations. The financial review is provided as a supplement to, and should be read in conjunction with the Consolidated Financial Statements and the related Notes included elsewhere in this report.

DISCUSSION AND ANALYSIS OVERVIEW

Our revenues are composed of sales of product and services, sales of leased equipment, lease revenues, fee and other income and patent settlement income. Our operations are conducted through two basic business segments: our technology sales business unit and our financing business unit.

Technology Sales Business Unit

The technology sales business unit sells information technology 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.

Our technology sales business unit derives revenue through the sales of new equipment and service engagements. These revenues are reflected in our Consolidated Statements of Operations under sales of product and services and fee and other income. Many customers purchase information technology equipment from us using Master Purchase Agreements ("MPA") in which the terms and conditions of our relationship are stipulated. Some MPAs contain pricing arrangements. However, the MPAs do not contain purchase volume commitments and most have 30 day termination for convenience clauses. In addition, many of our customers place orders using purchase orders without a MPA in place. A substantial portion of our sales of product and services are from sales of Hewlett Packard and CISCO products, which represented approximately 24% and 32% of sales, respectively, for the year ended March 31, 2007.

Included in the sales of product and services 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. Our service engagements are generally governed by Statements of Work and/or Master Service Agreements. They are primarily fixed fee; however, some agreements are time and materials or estimates.

We endeavor to minimize the cost of sales in our technology sales business unit through vendor consideration programs provided by manufacturers. The programs are generally governed by our reseller authorization level with the manufacturer. The authorization level we achieve and maintain governs the types of product we can resell as well as such items as pricing received, funds provided for the marketing of these products and other special promotions. These authorization levels are achieved by us through sales volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorizations are costly to maintain and these programs continually change and there is no guarantee of future reductions of costs provided by these vendor consideration programs. We currently maintain the following authorization levels with our major manufacturers:

Manufacturer	Manufacturer Authorization Level
Hewlett Packard	HP Platinum/VPA (National)

Cisco Systems	Cisco Gold DVAR (National)
Microsoft	Microsoft Gold (National)
Sun Microsystems	Sun iForce Strategic Partner (National)
IBM	IBM Platinum (National)
Lenovo	Lenovo Platinum (National)
Network Appliance, Inc.	NetApp Platinum (Elite)
Citrix Systems, Inc.	Citrix Gold (National)

Table of Contents

Through our technology sales business unit we also generate revenue through hosting arrangements and sales of software. These revenues are reflected in our Consolidated Statements of Operations under fee and other income. In addition, fee and other income results from: (1) income from events that occur after the initial sale of a financial asset; (2) remarketing fees; (3) brokerage fees earned for the placement of financing transactions; and (4) interest and other miscellaneous income.

In addition, we also derive income from settlements for patent infringement-related litigation. We have had two such lawsuits seeking to enforce our patents that have resulted in significant monetary settlements. This income is on our Consolidated Statement of Operations under patent settlement income.

Financing Business Unit

The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. The financing business unit derives revenue through leasing primarily information technology equipment and sales of leased equipment. These revenues are reflected in our Consolidated Statements of Operations under lease revenues and sales of leased equipment.

Lease revenues consist of rentals due under operating leases and amortization of unearned income on direct financing and sales-type leases. These transactions are accounted for in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 13, “Accounting for Leases.” Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate. Under the direct financing and sales-type lease methods, we record the net investment in leases, which consists of the sum of the minimum lease payments, initial direct costs (direct financing leases only), and unguaranteed residual value (gross investment) less the unearned income. The difference between the gross investment and the cost of the leased equipment for direct finance leases is recorded as unearned income at the inception of the lease. The unearned income is amortized over the life of the lease using the interest method. Under sales-type leases, the difference between the fair value and cost of the leased property plus initial direct costs (net margins) is recorded as revenue at the inception of the lease. For operating leases, rental amounts are accrued on a straight-line basis over the lease term and are recognized as lease revenue. SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. Certain assignments of direct finance leases we make on a non-recourse basis meet the criteria for surrender of control set forth by SFAS No. 140 and have, therefore, been treated as sales for financial statement purposes.

Sales of leased equipment represent revenue from the sales of equipment subject to a lease in which we are the lessor. If the rental stream on such lease has non-recourse debt associated with it, sales revenue is recorded at the amount of consideration received, net of the amount of debt assumed by the purchaser. If there is no non-recourse debt associated with the rental stream, sales revenue is recorded at the amount of gross consideration received, and costs of sales is recorded at the book value of the lease.

Fluctuations in Revenues

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 sale of equipment in our lease portfolio prior to the expiration of the lease term to 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.

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.

Table of Contents

We expect to expand or open new sales locations and hire additional staff for specific targeted market areas in the near future whenever we can find both experienced personnel and qualified geographic areas.

As a result of our acquisitions and expansion of sales locations, our historical results of operations and financial position may not be indicative of our future performance over time.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes —An Interpretation of FASB Statement No. 109" ("FIN 48"). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for us on April 1, 2007. We are assessing FIN 48 and have not determined the impact that the adoption of FIN 48 will have on our Consolidated Financial Statements. We do, however, expect to record a cumulative effect adjustment to our fiscal year 2008 beginning retained earnings in the first quarter of 2008, and that adjustment may be material.

During September 2006, the SEC released SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 requires a registrant to quantify all misstatements that could be material to financial statement users under both the "rollover" and "iron curtain" approaches. If either approach results in quantifying a misstatement that is material, the registrant must adjust its financial statements. We adopted SAB No. 108 during the fourth quarter of fiscal year 2007. The adoption of SAB No. 108 did not have a material impact on our Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for our fiscal year 2009. We are currently evaluating the impact that SFAS No. 157 will have on our financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." SFAS No. 159 gives companies an opportunity to use fair value measurements in financial reporting and permits entities to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS No. 159 will have on our financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES

We consider the following accounting policies important in understanding our operating results and financial condition. For additional accounting policies, see Note 1, "Organization and Summary of Significant Accounting Policies" to the Consolidated Financial Statements included elsewhere in this report.

SALES OF PRODUCT AND SERVICES. We adhere to guidelines and principles of sales recognition described in SAB No. 104, "Revenue Recognition," issued by the staff of the SEC. Under SAB No. 104, sales are recognized when the title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred and/or services have been rendered, the sales price is fixed or determinable and collectibility is reasonably assured. Using these tests, the vast majority of our sales represent product sales recognized upon delivery; however, we make an adjustment for our sales that have FOB Shipping Point terms.

From time to time, in the sales of product and services, we may enter into contracts that contain multiple elements. Sales of services currently represent a small percentage of our sales. For services that are performed in conjunction with product sales and are completed in our facilities prior to shipment of the product, sales for both the product and services are recognized upon shipment. Sales of services that are performed at customer locations are recorded as sales of product or services when the services are performed. If the service is performed at a customer location in conjunction with a product sale or other service sale, we recognize the sale in accordance with SAB No. 104 and EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Accordingly, in an arrangement with multiple deliverables, we recognize sales for delivered items only when all of the following criteria are satisfied:

Table of Contents

- the delivered item(s) has value to the client on a stand-alone basis;
- there is objective and reliable evidence of the fair value of the undelivered item(s); and
- if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

We sell certain third-party service contracts and software assurance or subscription products for which we evaluate whether the subsequent sales of such services should be recorded as gross sales or net sales in accordance with the sales recognition criteria outlined in SAB No. 104, EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," and FASB Technical Bulletin 90-1, "Accounting for Separately Priced Extended Warranty and Product Contracts." We must determine whether we act as a principal in the transaction and assume the risks and rewards of ownership or if we are simply acting as an agent or broker. Under gross sales recognition, the entire selling price is recorded in sales of product and services and our costs to the third-party service provider or vendor is recorded in cost of sales, product and services. Under net sales recognition, the cost to the third-party service provider or vendor is recorded as a reduction to sales resulting in net sales equal to the gross profit on the transaction and there are no cost of sales.

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," we record freight billed to our customers as sales of product and services and the related freight costs as a cost of sales, product and services.

VENDOR CONSIDERATION. We receive payments and credits from vendors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Vendor consideration received pursuant to volume sales incentive programs is recognized as a reduction to costs of sales, product and services in accordance with EITF Issue No. 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)." Vendor consideration received pursuant to volume purchase incentive programs is allocated to inventories based on the applicable incentives from each vendor and is recorded in cost of sales, product and services, as the inventory is sold. Vendor consideration received pursuant to shared marketing expense programs is recorded as a reduction of the related selling and administrative expenses in the period the program takes place only if the consideration represents a reimbursement of specific, incremental, identifiable costs. Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of cost of sales, product and services.

SOFTWARE SALES AND RELATED COSTS. Revenue from hosting arrangements is recognized in accordance with EITF 00-3, "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware." Our hosting arrangements do not contain a contractual right to take possession of the software. Therefore, our hosting arrangements are not in the scope of SOP 97-2, "Software Revenue Recognition," and require that allocation of the portion of the fee allocated to the hosting elements be recognized as the service is provided. Currently, the majority of our software revenue is generated through hosting agreements and is included in fee and other income on our Consolidated Statements of Operations.

Revenue from sales of our software is recognized in accordance with SOP 97-2, 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: (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred; (3) no significant obligations by us related to services essential to the functionality of the software remain with regard to implementation; (4) the sales price is determinable; and (5) and it is probable that collection will occur. Revenue from sales of our software is included in fee and other income on our Consolidated Statements of Operations.

At the time of each sale transaction, we make an assessment of the collectibility of the amount due from the customer. Revenue is only recognized at that time if management deems that collection is probable. In making this assessment, we consider customer credit-worthiness and assess whether fees are fixed or determinable and free of contingencies or significant uncertainties. If the fee is not fixed or determinable, revenue is recognized only as payments become due from the customer, provided that all other revenue recognition criteria are met. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction and our collection experience in similar transactions without making concessions, among other factors. Our software license agreements generally do not include customer acceptance provisions. However, if an arrangement includes an acceptance provision, we record revenue only upon the earlier of: (1) receipt of written acceptance from the customer; or (2) expiration of the acceptance period.

Our software agreements often include implementation and consulting services that are sold separately under consulting engagement contracts or as part of the software license arrangement. When we determine that such services are not essential to the functionality of the licensed software and qualify as “service transactions” under SOP 97-2, we record revenue separately for the license and service elements of these agreements. Generally, we consider that a service is not essential to the functionality of the software based on various factors, including if the services may be provided by independent third parties experienced in providing such consulting and implementation in coordination with dedicated customer personnel. If an arrangement does not qualify for separate accounting of the license and service elements, then license revenue is recognized together with the consulting services using either the percentage-of-completion or completed-contract method of contract accounting. Contract accounting is also applied to any software agreements that include customer-specific acceptance criteria or where the license payment is tied to the performance of consulting services. Under the percentage-of-completion method, we may estimate the stage of completion of contracts with fixed or “not to exceed” fees based on hours or costs incurred to date as compared with estimated total project hours or costs at completion. If we do not have a sufficient basis to measure progress towards completion, revenue is recognized upon completion of the contract. When total cost estimates exceed revenues, we accrue for the estimated losses immediately. The use of the percentage-of-completion method of accounting requires significant judgment relative to estimating total contract costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in salaries and other costs. When adjustments in estimated contract costs are determined, such revisions may have the effect of adjusting, in the current period, the earnings applicable to performance in prior periods.

We generally use the residual method to recognize revenues from agreements that include one or more elements to be delivered at a future date when evidence of the fair value of all undelivered elements exists. Under the residual method, the fair value of the undelivered elements (e.g., maintenance, consulting and training services) based on vendor-specific objective evidence (“VSOE”) is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements (i.e., software license). If evidence of the fair value of one or more of the undelivered services does not exist, all revenues are deferred and recognized when delivery of all of those services has occurred or when fair values can be established. We determine VSOE of the fair value of services revenue based upon our recent pricing for those services when sold separately. VSOE of the fair value of maintenance services may also be determined based on a substantive maintenance renewal clause, if any, within a customer contract. Our current pricing practices are influenced primarily by product type, purchase volume, maintenance term and customer location. We review services revenue sold separately and maintenance renewal rates on a periodic basis and update our VSOE of fair value for such services to ensure that it reflects our recent pricing experience, when appropriate.

Maintenance services generally include rights to unspecified upgrades (when and if available), telephone and Internet-based support, updates and bug fixes. Maintenance revenue is recognized ratably over the term of the maintenance contract (usually one year) on a straight-line basis and is included in fee and other income on our Consolidated Statements of Operations.

When consulting qualifies for separate accounting, consulting revenues under time and materials billing arrangements are recognized as the services are performed. Consulting revenues under fixed-price contracts are generally recognized using the percentage-of-completion method. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved. Consulting revenues are classified as fee and other income on our Consolidated Statements of Operations.

Training services include on-site training, classroom training and computer-based training and assessment. Training revenue is recognized as the related training services are provided and is included in fee and other income on our Consolidated Statements of Operations.

Table of Contents

LEASE CLASSIFICATION. 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 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.

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.

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 credit worthiness of the customer and the collectibility of lease payments are reasonably certain, no important uncertainties surround the amount of unreimbursable costs yet to be incurred, 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 leases and leased equipment—net 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 unguaranteed 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.

Sales-type leases include a dealer profit or loss that is recorded by the lessor upon acceptance of the equipment by the lessee. 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 the cost or carrying amount of the equipment (less the present value of the unguaranteed residual value) plus any initial direct costs. 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—net and is depreciated on 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 on the balance sheet as investment in leases and leased equipment—net and depreciated on a straight-line basis over the lease term to our estimate of residual value. For the periods subsequent to the lease term, where collectibility is certain, revenue is recognized on an accrual basis. Where collectibility is not reasonably assured, revenue is recognized upon receipt of payment from the lessee.

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 included as part of the investment in direct financing and sales-type leases. The residual values for operating leases are included in the leased equipment's net book value and are reported in the investment in leases and leased equipment—net. 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.

Table of Contents

We evaluate residual values on a quarterly basis and record any required changes in accordance with SFAS No. 13, paragraph 17.d., in which impairments of residual value, other than temporary, are recorded in the period in which the impairment is determined. Residual values are affected by equipment supply and demand and by new product announcements by manufacturers.

We seek to realize the estimated residual value at lease termination mainly through: (1) renewal or extension of the original lease; (2) the 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 sales of product and services and cost of sales, product and services when title is transferred to the buyer.

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.

RESERVES FOR CREDIT LOSSES. The reserves for credit losses are maintained at a level believed by management to be adequate to absorb potential losses inherent in our 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). Our allowance also includes consideration of uncollectible vendor receivables which arise from vendor rebate programs and other promotions.

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 our Consolidated Balance Sheets as a component of other assets. We had $1.0 million and $0.8 million of capitalized costs, net of amortization, as of March 31, 2006 and March 31, 2007, respectively.

SHARE-BASED PAYMENT. In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment,” or SFAS No. 123R. SFAS No. 123R replaces SFAS No. 123 “Accounting for Stock-Based Compensation,” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and subsequently issued stock option related guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. We are required to apply SFAS No. 123R to all awards granted, modified or settled as of the beginning of the annual fiscal reporting period that begins after June 15, 2005. We have analyzed the impact of SFAS No. 123R and have adopted SFAS No. 123R as of April 1, 2006. We are using the modified-prospective and the straight-line method.

Table of Contents

RESULTS OF OPERATIONS

The Year Ended March 31, 2007 Compared to the Year Ended March 31, 2006

Revenues. We generated total revenues during the year ended March 31, 2007 of $791.6 million compared to revenues of $647.3 million for the year ended March 31, 2006, an increase of 22.3%. This increase is primarily the result of increased sales of product and services and patent settlement income.

Sales of product and services increased 20.3% to $701.2 million as compared to the prior fiscal year and represented 88.6% of total revenue for the year ended March 31, 2007. The increase was a result of higher sales within our technology sales business unit subsidiaries due to increased purchases from our existing customer base and an increase in the number of new clients.

We realized a gross margin on sales of product and services of 11.2% and 10.0% for fiscal years ended March 31, 2007 and 2006, respectively. Our gross margin on sales of product and services is affected by the mix and volume of products sold and competitive pressure in the marketplace.

During the year ended March 31, 2007 sales of leased equipment were $4.5 million and we recognized a gross margin of 2.2% on these sales. During the year ended March 31, 2006 sales of leased equipment were $1.7 million and we recognized a gross margin of 2.2%. The revenue and gross margin recognized on sales of leased equipment can vary significantly depending on the nature and timing of the sale, as well as the timing of any debt funding recognized in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended by SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Lease revenues increased 11.3% to $54.7 million for the year ended March 31, 2007, compared with $49.2 million for the prior fiscal year. The increase in lease revenue is predominately due to an increase in medical equipment leases in our operating lease portfolio. Our net investment in leased assets was $217.2 million as of March 31, 2007, a 5.5% increase from $205.8 million as of March 31, 2006.

For the year ended March 31, 2007, fee and other income was $13.7 million, an increase of 2.7% over the prior fiscal year. Fee and other income includes revenues from adjunct services and fees, including broker and agent fees, support fees, warranty reimbursements, monetary settlements arising from disputes and litigation, and interest income. Our fee and other income contains earnings from certain transactions which are in our normal course of business but there is no guarantee that future transactions of the same nature, size or profitability will occur. Our 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.

Patent settlement income was $17.5 million for the year ended March 31, 2007. The increase in patent settlement income is attributable to the settlement of a lawsuit filed against SAP America, Inc. and SAP AG on December 14, 2006. Under the terms of the settlement agreement, we licensed to SAP our existing patents as well as patents developed and/or acquired by us within the next five years in exchange for a one-time cash payment of $17.5 million which was paid by SAP on January 16, 2007. No royalties or additional payments of any kind are required to keep this settlement agreement in full force. We are not engaged in licensing patents in the normal course of business and do not perform research and development activities to obtain patentable processes or products; however, we may patent our existing processes or products. We do not anticipate incurring any additional costs arising as a result of this settlement agreement, and there are no further actions that are required to be taken by us. There was no patent settlement income for the year ended March 31, 2006.

Costs and Expenses. During the year ended March 31, 2007, cost of sales, product and services increased 18.6% to $622.5 million compared to $525.0 million in the prior fiscal year. This increase corresponds to the increase in sales of product and services in our technology business unit which increased 21.5% to $20.3 million for the year ended March 31, 2007 as compared to the year ended March 31, 2006.

Cost of sales, product and services as a percentage of sales decreased from 90.0% for the year ended March 31, 2006 to 88.8% for the year ended March 31, 2007.

Table of Contents

Cost of sales, leased equipment was $4.4 million for the year ended March 31, 2007, compared to $1.7 million for the year ended March 31, 2006. This increase corresponds to the increase in sales of leased equipment of 158.0% for the year ended March 31, 2007 as compared to the prior fiscal year.

Direct lease costs increased 21.5% to $20.3 million for the year ended March 31, 2007, as compared to $16.7 million for the prior fiscal year. The largest component of direct lease costs is depreciation expense for operating leased equipment. Our investment in operating leases increased 17.9% for the year ended March 31, 2007 as compared to the prior fiscal year, which was predominantly due to an increase in medical equipment in our lease portfolio.

Professional and other fees for the year ended March 31, 2007 increased 141.6% to $16.2 million as compared to the prior fiscal year. The increase is primarily due to increased expenses related to patent litigation against SAP America, Inc. and its German parent, SAP AG in the amount of $5.6 million, legal expenses related to the Cyberco matters of $670 thousand and our review of accounting guidance regarding stock option grants since our IPO in 1996 and the resulting tax and accounting impact in connection with the Audit Committee Investigation of $5.0 million.

Salaries and benefit expenses increased 13.8% to $70.9 million for the year ended March 31, 2007, as compared to the prior fiscal year. These increases are due in part to an increase in benefit costs and an increase in the average salary per employee. We employed 649 people as of March 31, 2007.

General and administrative expenses decreased 7.7% to $17.2 million for the year ended March 31, 2007 as compared to the prior fiscal year. The decrease is due to a slight reduction in depreciation and amortization expense relating to property and equipment and increased efficiency in spending controls to enhance productivity and profits.

There was no litigation settlement and judgment expense for the year ended March 31, 2007. For the year ended March 31, 2006, we accrued for a settlement of litigation by GMAC against us of $6.0 million. We also recorded a BoA judgment against us of $3.0 million, including $0.9 million of legal fees and $0.2 million of interest, or a total of $4.1 million related to the BoA judgment. The GMAC settlement occurred in July 2006 and the BoA judgment occurred in February 2007.

Interest and financing costs increased 39.7% to $10.1 million for the year ended March 31, 2007 as compared to the prior fiscal year. This is primarily due to an increasing non-recourse debt portfolio and increasing debt rates on new financings. Non-recourse notes payable increased 15.8% to $148.1 million for the year ended March 31, 2007 as compared to the prior fiscal year because we funded more lease schedules with lenders on a non-recourse basis.

Provision for Income Taxes. Our provision for income taxes increased to $12.7 million for the year ended March 31, 2007 from a benefit of $0.5 million for the prior fiscal year, due primarily to an increase in net earnings. Our effective income tax rates for the years ended March 31, 2007 and 2006 were 42.3% and 51.1%, respectively. The decrease in the effective income tax rate is primarily due to the weighted average effect of the adjustments to the statutory federal income tax rate as a result of the net loss in fiscal year 2006.

Net Earnings. The foregoing resulted in earnings of $17.4 million for the year ended March 31, 2007 as compared to a net loss of $0.5 million for the prior fiscal year.

Basic and fully diluted earnings per common share were $2.11 and $2.04, respectively, for the year ended March 31, 2007, as compared to both basic and fully diluted loss per common share of $0.06 for the year ended March 31, 2006, based on weighted average common shares outstanding, basic and diluted, of 8,224,929 and 8,534,608, respectively, for 2007 and 8,347,727 and 8,347,727, respectively, for 2006.

Table of Contents

The Year Ended March 31, 2006 Compared to the Year Ended March 31, 2005

Revenues. We generated total revenues during the year ended March 31, 2006 of $647.3 million compared to revenues of $575.8 million for the year ended March 31, 2005, an increase of 12.4%. This increase is primarily the result of increased sales of product and services. Our revenues are composed of sales, lease revenues, and fee and other income, and may vary considerably from period to period.

Sales revenue, which includes sales of product and services, and sales of leased equipment, increased 21.6% to $584.8 million during the year ended March 31, 2006, as compared to $481.0 million in the prior fiscal year.

Sales of product and services increased 21.2% to $583.1 million as compared to the prior fiscal year and represented 90.1% of total revenue for the year ended March 31, 2006. The increase was a result of higher sales within our technology sales business unit subsidiaries primarily due to organic growth within our existing customer base.

A substantial portion of our sales of product and services are from sales of Hewlett Packard and CISCO products, which represented approximately 28.0% and 22.0% of sales, respectively, for the year ended March 31, 2006.

We realized a gross margin on sales of product and services of 10.0% for both fiscal years ended March 31, 2006 and 2005. Our gross margin on sales of product and services is affected by the mix and volume of products sold and competitive pressure in the marketplace.

During the year ended March 31, 2006 sales of leased equipment were $1.7 million and we recognized a gross margin of 2.2% on these sales. During the year ended March 31, 2005 there were no sales of leased equipment. The revenue and gross margin recognized on sales of leased equipment can vary significantly depending on the nature and timing of the sale, as well as the timing of any debt funding recognized in accordance with SFAS No. 125, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” as amended by SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.”

Lease revenues increased 6.1% to $49.2 million for the year ended March 31, 2006, compared with $46.3 million for the prior fiscal year. Our net investment in leased assets was $205.8 million as of March 31, 2006, a 9.0% increase from $188.9 million as of March 31, 2005. The increase in lease revenue is predominately due to an increase in our operating lease portfolio.

For the year ended March 31, 2006, fee and other income was $13.4 million, an increase of 16.4% over the prior fiscal year. Fee and other income includes revenues from adjunct services and fees, including broker and agent fees, support fees, warranty reimbursements, monetary settlements arising from disputes and litigation, and interest income. Our fee and other income contains earnings from certain transactions which are in our normal course of business but there is no guarantee that future transactions of the same nature, size or profitability will occur. Our 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.

There was no patent settlement income in the year ended March 31, 2006. For the year ended March 31, 2005, patent settlement income was $37.0 million due to a settlement of our patent-infringement litigation against Ariba, Inc. On February 7, 2005, Ariba, Inc. was found liable by a jury for willfully infringing three U.S. patents held by us. On February 12, 2005, we settled the patent-infringement suit through a settlement and license agreement (the “Settlement Agreement”). The Settlement Agreement provided that we receive, by March 31, 2005, a total of $37.0 million for the license of our patents. No royalties or additional payments of any kind are required to keep this settlement agreement in full force. We are not engaged in licensing patents in the normal course of business and do not perform research and development activities to obtain patentable processes or products; however, we may patent our existing processes or products. We do not anticipate incurring any additional costs arising as a result of this settlement agreement, and there are no further actions that are required to be taken by us. We accrued for the Settlement Agreement in the quarter ended March 31, 2005 in patent settlement income on the Consolidated Statements of Operations.

Table of Contents

Costs and Expenses. During the year ended March 31, 2006, cost of sales, product and services increased 21.3% to $525.0 million as compared to $432.8 million in the prior fiscal year. This increase corresponds to the increase in sales of product and services of 21.2% from March 31, 2005 to March 31, 2006, primarily due to an increase in sales from our technology sales business unit.

Direct lease costs increased 45.9% to $16.7 million for the year ended March 31, 2006, as compared to $11.4 million for the prior fiscal year. The largest component of direct lease costs is depreciation expense for operating leased equipment. Our investment in operating leases increased 56.1% as of March 31, 2006 as compared to the prior fiscal year.

Professional and other fees for the year ended March 31, 2006 decreased 28.9% as compared to the prior fiscal year, primarily due to a decrease in expenses related to our pursuit of patent-infringement litigation. For the year ended March 31, 2006, we recorded $2.6 million in legal fees seeking to enforce our patents against SAP America, Inc. and SAP AG, which was less than the expense incurred during the fiscal year ended March 31, 2005 related to our patent infringement litigation against Ariba, Inc.

Salaries and benefit expenses increased 14.7% to $62.3 million for the year ended March 31, 2006, as compared to the prior fiscal year. The increase is due in part to an increase in the number of employees and the subsequent increase in employee benefit costs. We employed 637 people as of March 31, 2005 compared to 680 people as of March 31, 2006. In addition, share-based compensation expense was $621 thousand and $(20) thousand for the years ended March 31, 2006 and 2005, respectively.

General and administrative expenses increased 1.9% to $18.6 million for the year ended March 31, 2006 as compared to the prior fiscal year. The increase is largely due to expenses relating to higher sales volume and depreciation costs for new property and equipment acquisitions.

For the year ended March 31, 2006, we accrued for a settlement of litigation by GMAC against us of $6.0 million. We also recorded a BoA judgment against us of $3.0 million, including $0.9 million of legal fees and $0.2 million of interest, or a total of $4.1 million related to the BoA judgment. The GMAC settlement occurred in July 2006 and the BoA judgment occurred in February 2007.

Interest and financing costs increased 23.4% to $7.3 million for the year ended March 31, 2006 as compared to the prior fiscal year. This is primarily due to an increasing non-recourse debt portfolio and increasing debt rates on new financings. Non-recourse notes payable increased 11.4% to $128.0 million for the year ended March 31, 2006 as compared to the prior fiscal year.

Provision for Income Taxes. Our provision for income taxes decreased to a benefit of $0.5 million for the year ended March 31, 2006 from an expense of $17.9 million for the prior fiscal year, due primarily to lower earnings. Our effective income tax rates for the years ended March 31, 2006 and 2005 were 51.1% and 41.1%, respectively. The increase in the effective income tax rate is primarily due to the weighted average effect of the adjustments to the statutory federal income tax rate.

Net Earnings. The foregoing resulted in a 102.0% decrease in net earnings for the year ended March 31, 2006, as compared to the prior fiscal year. The decrease is primarily due to the fees received from the settlement of our patent-infringement litigation against Ariba, Inc. of $37.0 million in the year ended March 31, 2005, and the accrual of a settlement of litigation against us by GMAC and a verdict judgment against us by BoA aggregating $10.1 million in the year ended March 31, 2006. The GMAC settlement occurred in July 2006 and the BoA judgment occurred in September 2006.

Both basic and fully diluted earnings (loss) per common share were $(0.06) for the year ended March 31, 2006, as compared to $2.89 and $2.73, respectively, for the year ended March 31, 2005, based on weighted average common shares outstanding, basic and diluted, of 8,347,727 respectively, for 2006 and 8,898,296 and 9,409,119, respectively, for 2005.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended March 31, 2007, we used cash flows in operations of $32.0 million, and used cash flows in investing activities of $28.2 million. Cash flows provided by financing activities amounted to $79.2 million. The effect of exchange rate changes during the fiscal year provided cash flows of $21 thousand. The net effect of these cash flows was a net increase in cash and cash equivalents of $19.0 million during the fiscal year 2007. During this same period, our total assets increased $44.5 million, or 11.9%,primarily as the result of increases in our accounts receivable, investment in leases and inventory. Our cash and cash equivalents balance as of March 31, 2007 was $39.7 million as compared to $20.7 million as of March 31, 2006.

Our debt financing activities provide approximately 80% to 100% of the purchase price of the equipment we purchase for lease to our customers. Any balance of the purchase price (our equity investment in the equipment) must generally be financed by cash flows from our operations, the sale of the equipment leased to third parties, or other internal means. Although we expect that the credit quality of our leases and our residual return history will continue to allow us to obtain such financing, no assurances can be given that such financing will be available, at acceptable terms, or at all. The financing necessary to support our leasing activities has principally been provided by non-recourse and recourse borrowings. Historically, we have 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 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 in the loan agreements. The lender assumes the credit risk of each lease, and their only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease. Each transaction is specifically approved and funded solely at the lender’s discretion. During the fiscal year ended March 31, 2007, our lease-related non-recourse debt portfolio increased 15.8% to $148.1 million as compared to the prior fiscal year.

Whenever desirable and possible, we arrange 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. We generally retain customer control and operational services, and have minimal residual risk. We usually preserve the right to share in remarketing proceeds of the equipment on a subordinated basis after the investor has received an agreed-to return on their investment.

Accounts payable—equipment represents equipment costs that have been placed on a lease schedule, but for which we have not yet paid. The balance of unpaid equipment cost can vary depending on vendor terms and the timing of lease originations. As of March 31, 2007, we had $6.5 million of unpaid equipment cost, as compared to $7.7 million as of March 31, 2006.

Accounts payable—trade increased 13.2% from $19.2 million as of March 31, 2006 to $21.8 million as of March 31, 2007. This increase is due to a rise in sales of product and services and, consequently, an increase in cost of goods sold, product and services from our technology business unit.

Accounts payable—floor plan increased 18.8% from $46.7 million as of March 31, 2006 to $55.5 million as of March 31, 2007. This increase is primarily due to a rise in sales of product and services from our technology business unit that we transacted through our floor plan facility with GE Commercial Distribution Finance Corporation (“GECDF”).

Accrued expenses and other liabilities includes deferred income and amounts collected and payable, such as sales taxes and lease rental payments due to third parties. As of March 31, 2007, we had $26.0 million of accrued expenses and other liabilities, a decrease of 22.2% for the year as compared to $33.3 million at the end of the prior fiscal year.

Non-recourse notes payable increased 15.8% or $20.2 million from $127.9 million at March 31, 2006 to $148.1 million at March 31, 2007. This increase is due to a strategic effort to fund existing leases in our portfolio with non-recourse debt.

Table of Contents

Based on past performance and current expectations, we believe that our cash and cash equivalents, available borrowings based on continued compliance and/or waivers under our credit facilities and cash generated from operations will satisfy our working capital needs, capital expenditures, stock repurchases, commitments, acquisitions and other liquidity requirements associated with our existing operations through at least the next 12 months.

Credit Facility — Technology Business

Our subsidiary, ePlus Technology, inc., has a financing facility from GECDF to finance its working capital requirements for inventories and accounts receivable. There are two components of this facility: (1) a floor plan component and (2) an accounts receivable component. As of March 31, 2007, the facility agreement had an aggregate limit of the two components of $85 million, and the accounts receivable component had a sub-limit of $30 million. Effective October 29, 2007, the facility with GECDF was amended to increase the aggregate limit to $125 million with a sub-limit on the accounts receivable component of $30 million. The use of a temporary overline period as previously provided for in the agreement was eliminated. Availability under the GECDF facility may be limited by the asset value of equipment we purchase and may be further limited by certain covenants and terms and conditions of the facility. We were in compliance with these covenants as of March 31, 2007.

The facility provided by GECDF requires a guaranty of up to $10.5 million by ePlus inc. The guaranty requires ePlus inc to deliver its annual audited financial statements by certain dates. We have not delivered the annual audited financial statements for the year ended March 31, 2007 included herein; however, GECDF has extended the delivery date to provide the financial statements through February 29, 2008. 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 as an operational function of our accounts payable process.

Floor Plan Component

The traditional business of ePlus Technology, inc. as a seller of computer technology, related peripherals and software products is financed through a floor plan component in which interest expense for the first thirty- to forty-five days, in general, is not charged. The floor plan liabilities are recorded as accounts payable—floor plan on our Consolidated Balance Sheets, as they are normally repaid within the thirty- to forty-five day time-frame and represent an assigned accounts payable originally generated with the manufacturer/distributor. If the thirty- to forty-five day obligation is not paid timely, interest is then assessed at stated contractual rates.

The respective floor plan component credit limits and actual outstanding balances were as follows (in thousands):

Maximum Credit Limit at March 31, 2006	Balance as of March 31, 2006	Maximum Credit Limit at March 31, 2007	Balance as of March 31, 2007
$ 75,000	$ 46,689	$ 85,000	$ 55,470

Accounts Receivable Component

Included within the floor plan component, ePlus Technology, inc. has an accounts receivable component from GECDF, which has a revolving line of credit. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our customers into a lockbox and our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our Consolidated Balance Sheets.

The respective accounts receivable component credit limits and actual outstanding balances were as follows (in thousands):

Maximum Credit Limit at March 31, 2006	Balance as of March 31, 2006	Maximum Credit Limit at March 31, 2007	Balance as of March 31, 2007
$ 20,000	$ -	$ 30,000	$ -

39

Table of Contents

Credit Facility — Leasing Business

Working capital for our leasing business is provided through a credit facility which is currently contractually scheduled to expire on July 10, 2009. On September 26, 2005, we terminated our $45 million credit facility and simultaneously entered into a new $35 million credit facility. Participating in this facility are Branch Banking and Trust Company ($15 million) and National City Bank ($20 million) as agents. The ability to borrow under this facility is limited to the amount of eligible collateral at any given time. The credit facility has full recourse to us and is secured by a blanket lien against all of our assets such as chattel paper (including leases), receivables, inventory and equipment, and the common stock of all wholly-owned subsidiaries.

The credit facility contains certain financial covenants and certain restrictions on, among other things, our ability to make certain investments, and sell assets or merge with another company. Borrowings under the credit facility bear interest at London Interbank Offered Rates ("LIBOR") plus an applicable margin or, at our option, the Alternate Base Rate ("ABR") plus an applicable margin. The ABR is the higher of the agent bank's prime rate or Federal Funds rate plus 0.5%. The applicable margin is determined based on our recourse funded debt ratio and can range from 1.75% to 2.50% for LIBOR loans and from 0.0% to 0.25% for ABR loans. As of March 31, 2007, we had an outstanding balance of $5.0 million on the facility, as recorded in recourse notes payable on our Consolidated Balance Sheets.

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 availability of the credit facility is subject to a borrowing base formula that consists of inventory, receivables, purchased assets, and lease assets. Availability under the credit facility may be limited by the asset value of the equipment purchased by us 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 minimum tangible net worth, cash flow coverage ratios, maximum debt to equity ratio, maximum guarantees of subsidiary obligations, mergers and acquisitions and asset sales. Other than as detailed below, we were in compliance with these covenants as of March 31, 2007.

The National City Bank facility requires the delivery of our Audited and Unaudited Financial Statements, and pro-forma financial projections, by certain dates. We have not delivered the following documents as required by Section 5.1 of the facility: (a) fiscal year 2007 Annual Audited Financial Statements included herein; and (b) quarterly Unaudited Financial Statements for the quarters ended June 30, 2007 and September 30, 2007 and the Audited Financial Statements for the year ended March 31, 2007 included herein. We entered into the following amendments which have extended the delivery date requirements for these documents: a First Amendment dated July 11, 2006, a Second Amendment dated July 28, 2006, a Third Amendment dated August 30, 2006, a Fourth Amendment dated September 27, 2006, a Fifth Amendment dated November 15, 2006, a Sixth Amendment dated January 11, 2007, a Seventh Amendment dated March 12, 2007, an Eighth Amendment dated June 27, 2007, a Ninth Amendment dated August 22, 2007 and a Tenth amendment dated November 29, 2007. As a result of the amendments, the agents agreed, inter alia, to extend the delivery date requirements of the documents above through February 28, 2008.

Performance Guarantees

In the normal course of business, we may provide certain customers with performance guarantees, which are generally backed by surety bonds. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations. We are in compliance with the performance obligations under all service contracts for which there is a performance guarantee, and we believe that any liability incurred in connection with these guarantees would not have a material adverse effect on our Consolidated Statements of Operations.

Table of Contents

We believe we will receive additional extensions from our lender, if needed, regarding our requirement to provide financial statements as described above through the date of delivery of the documents. However, we cannot guarantee that we will receive additional extensions.

Contractual Obligations

The impact that our contractual obligations as of March 31, 2007 are expected to have on our liquidity and cash flow in future periods is as follows (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Non-recourse notes payable (1)	$ 148,136	$ 81,231	$ 59,594	$ 7,232	$ 79
Recourse notes payable	5,000	5,000	-	-	-
Operating Lease Obligations (2)	5,664	2,282	3,111	271	-
Total	$ 158,800	$ 88,513	$ 62,705	$ 7,503	$ 79

(1) Non-recourse notes payable obligations in which the specific lease receivable payments have been assigned to the lender.
(2) Rent obligations.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of March 31, 2007, we are not involved in any unconsolidated special purpose entity transactions.

Adequacy of Capital Resources

The continued implementation of our business strategy will require a significant investment in both resources and managerial focus. In addition, we may selectively acquire other companies that have attractive customer relationships and skilled sales forces. We may also acquire technology companies to expand and enhance the platform of bundled solutions to provide additional functionality and value-added services. As a result, we may require additional financing to fund our strategy implementation and potential future acquisitions, which may include additional debt and equity financing.

For the periods presented herein, inflation has been relatively low and we believe that inflation has not had a material effect on our results of operations.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Although a substantial portion of our liabilities are non-recourse, fixed interest rate instruments, we are reliant upon lines of credit and other financing facilities which are subject to fluctuations in interest rates. These instruments, which are denominated in U.S. Dollars, were entered into for other than trading purposes and, with the exception of amounts drawn under the National City Bank and GECDF 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 facility bear interest at a market-based variable rate, based on a rate selected by us and determined at the time of borrowing. Borrowings under the GECDF facility bear interest at a market-based variable rate. 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 March 31, 2007, the aggregate fair value of our recourse borrowings approximated their carrying value.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Consolidated Financial Statements and Schedules listed in the accompanying “Index to Financial Statements and Schedules.”

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective due to an existing material weakness in our internal control over financial reporting as discussed below.

Change in Internal Control over Financial Reporting

During the course of preparing our Consolidated Financial Statements for the quarter ended December 31, 2006, we identified a material weakness related to the cut-off and recognition of service sales and accrued liabilities. We have begun remediation of this material weakness as described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

There have not been any changes in our internal control over financial reporting during the quarter ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Plan for Remediation

In connection with the preparation of our Consolidated Financial Statements for the fiscal year ended March 31, 2007, we performed additional procedures related to the cut-off and recognition matters noted above. In addition, we are developing a plan to enhance our controls surrounding these cut-off issues including, but not limited to, improvements to existing software applications to track service engagements, standardization of sales contract terms, and additional staff training. The actions that we plan to take are subject to continued management review supported by confirmation and testing as well as audit committee oversight.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors and Executive Officers

The following table sets forth the name, age and position, as of December 31, 2007, of each person who was an executive officer, director or significant employee with ePlus on December 31, 2007.

NAME	AGE	POSITION	CLASS
Phillip G. Norton	63	Director, Chairman of the Board, President and Chief Executive Officer	III
Bruce M. Bowen	56	Director and Executive Vice President	III
Terrence O'Donnell.	63	Director	II
Milton E. Cooper, Jr.	69	Director	II
Irving R. Beimler	61	Director	II
Lawrence S. Herman.	63	Director	I
C. Thomas Faulders, III.	58	Director	I
Eric D. Hovde	43	Director	I
Steven J. Mencarini	52	Senior Vice President and Chief Financial Officer	
Kleyton L. Parkhurst	44	Senior Vice President and Treasurer	

The business experience during the past five years of each director and 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.

Terrence O'Donnell joined our Board in November 1996 upon the completion of our IPO. For the past five years, Mr. O'Donnell has been the Executive Vice President and General Counsel of Textron, Inc. and a partner with the law firm of Williams & Connolly LLP in Washington, D.C. Mr. O'Donnell has practiced law since 1977, and from 1989 to

1992 served as General Counsel to the U.S. Department of Defense. Mr. O'Donnell presently also serves on the Board of Directors and the Compensation and Audit Committees of IGI, Inc., an American Stock Exchange company. Mr. O'Donnell is a 1966 graduate of the U.S. Air Force Academy and received a Juris Doctor from Georgetown University Law Center in 1971.

Table of Contents

Milton E. Cooper, Jr. joined our Board in November 2003. Mr. Cooper served with Computer Sciences Corporation ("CSC") from September 1984 until his retirement in May 2001, first as Vice President, Business Development and then (from January 1992) as President, Federal Sector. Before joining CSC, Mr. Cooper served in marketing and general management positions with IBM Corporation, Telex Corporation, and Raytheon Company. He also serves on the Board of Directors and as Chairman of the Compensation Committee of both L-1 Identity Solutions, Inc. and Applied Signal Technology, Inc. Mr. Cooper is a 1960 graduate of the United States Military Academy. He served as an artillery officer with the 82nd Airborne Division before leaving active duty in 1963.

Irving R. Beimler joined our Board in November 2006. Mr. Beimler has been with the Hovde Group (defined below) since November 1997. Currently, he is serving as Portfolio Manager of Hovde Private Equity Advisors LLC. He has served as a senior officer, Interim President and Chief Executive Officer and a Board Member of numerous banks and thrifts during his career. Currently, he serves as a Board member of Sunwest Bank and BPD Bank. He is a graduate of the State University of New York at Geneseo.

Lawrence S. Herman joined our Board in March 2001. Mr. Herman has been with BearingPoint, Inc. since June 1967 and was one of BearingPoint's most senior managing directors, responsible for managing the strategy and emerging markets in the company's state and local government practice. In July 2007, Mr. Herman transitioned to a new role with BearingPoint as a managing director emeritus on a part time basis. During his career, Mr. Herman has specialized in developing, evaluating, and implementing financial and management systems and strategies for state and local governments around the nation. He has directed systems integration projects for state and local governments, and several statewide performance and budget reviews for California, North Carolina, South Carolina, Louisiana, Oklahoma, and others, resulting in strategic fiscal and technology plans. He is considered to be one of the nation's foremost state budget and fiscal planning experts. Mr. Herman received his B.S. degree in Mathematics and Economics from Tufts University in 1965 and his Masters of Business Administration in 1967 from Harvard Business School.

C. Thomas Faulders, III joined our Board in July 1998. Mr. Faulders has been the President and Chief Executive Officer of the University of Virginia Alumni Association since 2005. Prior to that, Mr. Faulders served as the Chairman and Chief Executive Officer of LCC International, Inc. from 1999 to 2005 and as Chairman of Telesciences, Inc., an information services company, from 1998 to 1999. From 1995 to 1998, Mr. Faulders was Executive Vice President, Treasurer, and Chief Financial Officer of BDM International, Inc., a prominent systems integration company. Mr. Faulders is a member of the Board of Advisors of Morgan Franklin and the Board of Trustees of Randolph College. He is a 1971 graduate of the University of Virginia and in 1981 received a Masters of Business Administration from the Wharton School of the University of Pennsylvania.

Eric D. Hovde joined our Board in November 2006. In 1987, Mr. Hovde founded Hovde Financial, Inc., and is the Chief Executive Officer, Managing Member and Chairman of, Hovde Capital Advisors LLC, Hovde Private Equity Advisors LLC, and Hovde Financial, Inc., respectively (the "Hovde Group"). The Hovde Group is focused exclusively on the financial services industry and provides its clients with investment banking, asset management and merchant banking services. Mr. Hovde has also served as a director on numerous bank and thrift boards and currently serves on the Board of Directors and the Compensation Committee of Sunwest Bank in Orange County, California. Mr. Hovde is also the co-founder and a trustee of the Eric D. and Steven D. Hovde Foundation, an organization that actively supports clinical research in search of a cure for Multiple Sclerosis and charitable relief in devastated areas around the world. Mr. Hovde received his degrees in Economics and International Relations from the University of Wisconsin. He is licensed with the NASD as a registered representative and general securities principal.

Steven J. Mencarini joined us in June 1997 as Senior Vice President and CFO. 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.

Kleyton L. Parkhurst joined us in May 1991 as Director of Finance. Mr. Parkhurst has served as Secretary or Assistant Secretary and Treasurer since September 1996. In July 1998, Mr. Parkhurst was made Senior Vice President for Corporate Development. Mr. Parkhurst is currently responsible for all of our mergers and acquisitions, investor relations, and marketing. Mr. Parkhurst is a 1985 graduate of Middlebury College.

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 shall resign or be removed as provided by the Bylaws.

Table of Contents

Audit Committee

The Audit Committee of the Board is responsible for: selecting, appointing, overseeing, reviewing and approving the fees of our independent public accountants; monitoring and reviewing the quality and activities of our internal and external audit functions; monitoring the adequacy of our operating and internal controls as reported by management and the external or internal auditors; assessing the independent auditor's qualifications and independence; and reviewing our periodic reports filed with the SEC. As of March 31, 2007 and through June 12, 2007, the members of the Audit Committee were Terrence O'Donnell (Chairman), C. Thomas Faulders, III, Lawrence S. Herman, and Milton E. Cooper. Beginning June 13, 2007, the members of the Audit Committee are Terrence O'Donnell (Chairman), Irving R. Beimler, C. Thomas Faulders, III and Lawrence S. Herman. Each member of the Audit Committee is independent in accordance with the published listing requirements of Nasdaq. In addition, the Board has determined that C. Thomas Faulders qualifies as an "Audit Committee Financial Expert" as defined in regulations issued by the SEC. This designation is a disclosure requirement of the SEC related to Mr. Faulder's experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. Faulders any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and the Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or the Board. The Board has also determined that each Audit Committee member has sufficient knowledge in reading and understanding our financial statements to serve on the Audit Committee.

Stockholder Nominations

It is the policy of the Nominating and Corporate Governance Committee to consider properly submitted stockholder nominations for membership on the Board. Any stockholder nomination must comply with our Bylaws. The notice must be in writing and delivered to our Corporate Secretary, ePlus inc., 13595 Dulles Technology Drive, Herndon, Virginia 20171-3413, no later than 90 days in advance of the Annual Meeting or, if later, the seventh day following the first public announcement of the Annual Meeting. The notice must set forth: (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the stockholder is a holder of record of our stock entitled to vote at the Annual Meeting and intends to appear in person or by proxy at the Annual Meeting and nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each nominee or any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had the nominee been nominated, or intended to be nominated, by the Board; and (v) the consent of each nominee to serve as a director if so elected. In addition, the stockholder making such nomination shall promptly provide any other information reasonably requested by us.

In evaluating such nominations, the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience, and capability on the Board. Furthermore, any member of the Board must have the highest personal ethics and values and have experience at the policy-making level of business, and should be committed to enhancing stockholder value.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers, directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of securities ownership and changes in such ownership with the SEC and Nasdaq. Officers, directors, and greater-than-ten-percent stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file.

Based solely upon a review of Forms 3, Forms 4, and Forms 5 furnished to us pursuant to Rule 16a-3 under the Exchange Act, we believe that all such forms required to be filed pursuant to Section 16(a) of the Exchange Act during the fiscal year ended March 31, 2007 were timely filed, as necessary, by the officers, directors, and security holders required to file such forms.

Table of Contents

Code of Ethics

We have a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and our Board. The Standard of Conduct and Ethics for Employees, Officers and Directors of ePlus inc. is available on our website at www.ePlus.com/ethics. We will disclose on our website any amendments to or waivers from any provision of the Standard of Conduct and Ethics that applies to any of the directors or officers.

Table of Contents

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This compensation discussion and analysis provides (1) an overview of the Compensation Committee of our Board of Directors (the "Compensation Committee") , (2) a discussion of the participation of named executive officers in Compensation Committee matters, (3) a discussion of the background and objectives of our compensation programs for our named executive officers, (4) a discussion of all material components of the compensation of our named executive officers, and (5) a discussion of other compensation related matters that are material to our named executive officer compensation program.

Overview of the Compensation Committee