EPLUS INC
Form 10-Q
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from____ to ____ .

Commission file number: 1-34167

ePlus inc.

(Exact name of registrant as specified in its charter)

Delaware	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 executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No
The number of shares of common stock outstanding as of November 5, 2018 was 13,704,734.

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ePlus inc. AND SUBSIDIARIES

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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, or “Exchange Act,” and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact, but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as “may,” “should,” “would,” “intend,” “estimate,” “will,” “potential,” “poss “could,” “believe,” “expect,” “intend,” “plan,” “anticipate,” “project,” and similar expressions. Readers are cautioned not to pla undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements are made based upon information that is currently available or management’s current expectations and beliefs concerning future developments and their potential effects upon us, speak only as of the date hereof, and are subject to certain risks and uncertainties. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware. Actual events, transactions and results may materially differ from the anticipated events, transactions, or results described in such statements. Our ability to consummate such transactions and achieve such events or results is subject to certain risks and uncertainties. Such risks and uncertainties include, but are not limited to, the matters set forth below:

- national and international political instability fostering uncertainty and volatility in the global economy including exposure to fluctuation in foreign currency rates, interest rates, and downward pressure on prices;
- domestic and international economic regulations uncertainty (e.g., tariffs, North American Free Trade Agreement, and Trans-Pacific Partnership).
- significant adverse changes in, reductions in, or loss of our largest volume customer or one or more of our large volume customers, or vendors;
- exposure to changes in, interpretations of, or enforcement trends in legislation and regulatory matters;
- the creditworthiness of our customers and our ability to reserve adequately for credit losses;
- reduction of vendor incentives provided to us;
- managing a diverse product set of solutions in highly competitive markets with a number of key vendors;
- increasing the total number of customers using integrated solutions by up-selling within our customer base and gaining new customers;
- adapting to meet changes in markets and competitive developments;
- maintaining and increasing advanced professional services by recruiting and retaining highly skilled, competent personnel, and vendor certifications;
- increasing the total number of customers who use our managed services and professional services and continuing to enhance our managed services offerings to remain competitive in the marketplace;
- performing professional and managed services competently;
- maintaining our proprietary software and updating our technology infrastructure to remain competitive in the marketplace; and
- reliance on third parties to perform some of our service obligations to our customers;
- changes in the Information Technology (“IT”) industry and/or rapid changes in product offerings, including the proliferation of the cloud, infrastructure as a service (“IaaS”), and software as a service (“SaaS”);
- our dependency on continued innovations in hardware, software, and services offerings by our vendors and our ability to partner with them;
- future growth rates in our core businesses;
- failure to comply with public sector contracts, or applicable laws or regulations;
- changes to or loss of members of our senior management team and/or failure to successfully implement succession plans;
- our dependence on key personnel to maintain certain customer relationships, and our ability to hire, train, and retain sufficient qualified personnel;
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- our ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration, and other key strategies;
- a possible decrease in the capital spending budgets of our customers or a decrease in purchases from us;
- our contracts may not be adequate to protect us, and we are subject to audit in which we may not pass, and our professional and liability insurance policies coverage may be insufficient to cover a claim;
- disruptions or a security breach in our or our vendors’ IT systems and data and audio communication networks;
- our ability to secure our own customers’ electronic and other confidential information, and remain secure during a cyber-security attack;

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- our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, obtain debt for our financing transactions, or the effect of those changes on our common stock or its holders;
- our ability to realize our investment in leased equipment;
- our ability to successfully perform due diligence and integrate acquired businesses;
- the possibility of goodwill impairment charges in the future;
- our ability to protect our intellectual property rights and successfully defend any challenges to the validity of our patents or allegations that we are infringing upon any third party patents, and the costs associated with those actions, and, when appropriate, license required technology; and
- significant changes in accounting standards including changes to the financial reporting of leases, which could impact the demand for our leasing services, or misclassification of products and services we sell resulting in the misapplication of revenue recognition policies or inaccurate costs and completion dates for our services, which could affect our estimates.

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 Item 1A, “Risk Factors” and Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as other reports that we file with the Securities and Exchange Commission (“SEC”).

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except per share amounts)

	September 30, 2018	March 31, 2018 (as adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 75,647	$ 118,198
Accounts receivable—trade, net	292,045	268,287
Accounts receivable—other, net	40,312	28,401
Inventories	56,606	39,855
Financing receivables—net, current	86,253	69,936
Deferred costs	16,211	16,589
Other current assets	10,716	23,625
Total current assets	577,790	564,891
Financing receivables and operating leases—net	79,119	68,511
Property, equipment and other assets	18,037	19,143
Goodwill	76,445	76,624
Other intangible assets—net	23,805	26,302
TOTAL ASSETS	$ 775,196	$ 755,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 92,830	$ 106,933
Accounts payable—floor plan	120,771	112,109
Salaries and commissions payable	17,596	19,801
Deferred revenue	35,860	35,648
Recourse notes payable—current	-	1,343
Non-recourse notes payable—current	52,630	40,863
Other current liabilities	20,698	33,370
Total current liabilities	340,385	350,067
Non-recourse notes payable—long term	12,656	10,072
Deferred tax liability—net	1,644	1,662
Other liabilities	21,234	21,067
TOTAL LIABILITIES	375,919	382,868
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		

Preferred stock, $.01 per share par value; 2,000 shares authorized; none outstanding	-	-
Common stock, $.01 per share par value; 25,000 shares authorized; 13,727 outstanding at September 30, 2018 and 13,761 outstanding at March 31, 2018	143	142
Additional paid-in capital	133,561	130,000
Treasury stock, at cost, 578 shares at September 30, 2018 and 467 shares at March 31, 2018	(45,380)	(36,016)
Retained earnings	311,221	277,945
Accumulated other comprehensive income—foreign currency translation adjustment	(268)	532
Total Stockholders' Equity	399,277	372,603
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 775,196	$ 755,471

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
		(as adjusted)		(as adjusted)
Net sales	$345,043	$ 371,363	$701,575	$ 744,719
Cost of sales	259,543	283,792	535,372	579,555
Gross profit	85,500	87,571	166,203	165,164
Selling, general, and administrative expenses	57,705	56,340	114,671	111,004
Depreciation and amortization	2,741	2,129	5,531	4,192
Interest and financing costs	484	274	960	633
Operating expenses	60,930	58,743	121,162	115,829
Operating income	24,570	28,828	45,041	49,335
Other income (expense)	322	(141)	419	130
Earnings before tax	24,892	28,687	45,460	49,465
Provision for income taxes	6,889	11,466	12,184	18,821
Net earnings	$18,003	$ 17,221	$33,276	$ 30,644
Net earnings per common share—basic	$1.33	$ 1.24	$2.47	$ 2.21
Net earnings per common share—diluted	$1.33	$ 1.23	$2.45	$ 2.19
Weighted average common shares outstanding—basic	13,494	13,879	13,464	13,843
Weighted average common shares outstanding—diluted	13,586	14,008	13,597	14,021

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
	(amounts in thousands)			
NET EARNINGS	$18,003	$17,221	$33,276	$30,644
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	(143)	391	(800)	703
Other comprehensive income (loss)	(143)	391	(800)	703
TOTAL COMPREHENSIVE INCOME	$17,860	$17,612	$32,476	$31,347

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	Six Months Ended September 30,	
	2018	2017 (as adjusted)
Cash Flows From Operating Activities:		
Net earnings	$ 33,276	$ 30,644
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,867	6,745
Reserve for credit losses, inventory obsolescence and sales returns	178	232
Share-based compensation expense	3,561	3,180
Payments from lessees directly to lenders—operating leases	(75)	(1,190)
Gain on disposal of property, equipment and leased equipment	(939)	(5,364)
Gain on sale of financing receivables	(2,584)	(3,498)
Other	2	-
Changes in:		
Accounts receivable	(29,287)	(21,694)
Inventories	(16,688)	43,041
Financing receivables—net	(5,922)	2,730
Deferred costs, other intangible assets and other assets	4,920	(8,290)
Accounts payable	2,375	(6,920)
Salaries and commissions payable, deferred revenue and other liabilities	(14,769)	(26,286)
Net cash provided by (used) in operating activities	$ (17,085)	$ 13,330
Cash Flows From Investing Activities:		
Proceeds from sale of property, equipment and leased equipment	1,764	7,976
Purchases of property, equipment and operating lease equipment	(6,451)	(3,436)
Purchases of assets to be leased or financed	(8,620)	(3,792)
Issuance of financing receivables	(88,442)	(100,785)
Repayments of financing receivables	33,349	41,087
Proceeds from sale of financing receivables	30,463	43,777
Cash used in acquisitions, net of cash acquired	-	(37,718)
Net cash used in investing activities	$ (37,937)	$ (52,891)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

	Six Months Ended September 30, 2018	2017 (as adjusted)
Cash Flows From Financing Activities:		
Borrowings of non-recourse and recourse notes payable	$ 27,157	$ 32,566
Repayments of non-recourse and recourse notes payable	(11,229)	(24,730)
Repurchase of common stock	(10,135)	(4,383)
Repayments of financing of acquisitions	(2,134)	(1,104)
Net borrowings (repayments) on floor plan facility	8,662	(12,395)
Net cash provided by (used) in financing activities	12,321	(10,046)
Effect of exchange rate changes on cash	150	32
Net Increase (Decrease) in Cash and Cash Equivalents	(42,551)	(49,575)
Cash and Cash Equivalents, Beginning of Period	118,198	109,760
Cash and Cash Equivalents, End of Period	$ 75,647	$ 60,185
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 945	$ 254
Cash paid for income taxes	$ 11,221	$ 20,041
Schedule of Non-Cash Investing and Financing Activities:		
Proceeds from sale of property, equipment, and leased equipment	$ 461	$ 906
Purchase of property, equipment, and operating lease equipment	$ (934)	$ 724
Purchase of assets to be leased or financed	$ 1,010	$ (4,134)
Issuance of financing receivables	$ (36,655)	$ (66,764)
Repayment of financing receivables	$ -	$ 7,096
Proceeds from sale of financing receivables	$ 40,265	$ 70,423
Financing of acquisitions	$ -	$ (12,050)
Borrowing of non-recourse and recourse notes payable	$ 37,688	$ 8,904
Repayments of non-recourse and recourse notes payable	$ (63)	$ (10,704)
Vesting of share-based compensation	$ 12,769	$ 11,969

See Notes to Unaudited Condensed Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Additional			Accumulated	
						Other	
			Paid-In	Treasury	Retained	Comprehensive	
	Shares	Par Value	Capital	Stock	Earnings	Income	Total
Balance, April 1, 2018	13,761	$ 142	$ 130,000	$ (36,016)	$ 277,945	$ 532	$ 372,603
Issuance of restricted stock awards	77	1	-	-	-	-	1
Share-based compensation	-	-	3,561	-	-	-	3,561
Repurchase of common stock	(111)	-	-	(9,364)	-	-	(9,364)
Net earnings	-	-	-	-	33,276	-	33,276
Foreign currency translation adjustment	-	-	-	-	-	(800)	(800)
Balance, September 30, 2018	13,727	$ 143	$ 133,561	$ (45,380)	$ 311,221	$ (268)	$ 399,277

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS — Our company was founded in 1990 and is a Delaware corporation. ePlus inc. is sometimes referred to in this Quarterly Report on Form 10-Q as “we,” “our,” “us,” “ourselves,” or “ePlus.” ePlus inc. is a holdi company that through its subsidiaries provides IT solutions that enable organizations to optimize their IT environment and supply chain processes. We also provide consulting, professional and managed services, and complete lifecycle management services, including flexible financing solutions. We focus on state and local governments, middle market and large enterprises in North America and the United Kingdom (“U.K.”).

BASIS OF PRESENTATION — The unaudited condensed consolidated financial statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The accounts of businesses acquired are included in the unaudited condensed consolidated financial statements from the dates of acquisition.

INTERIM FINANCIAL STATEMENTS — The unaudited condensed consolidated financial statements for the three and six months ended September 30, 2018 and 2017 were prepared by us, without audit, and include all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations, changes in comprehensive income, and cash flows for such periods. Operating results for the three and six months ended September 30, 2018 and 2017 are not necessarily indicative of results that may be expected for any other interim period, the full fiscal year ending March 31, 2019, or any other future period. These unaudited condensed consolidated financial statements do not include all disclosures required by the accounting principles generally accepted in the United States (“US GAAP”) for annual financial statements. Our audited consolidated financial statements are contained in our annual report on Form 10-K for the year ended March 31, 2018 (“2018 Annual Report”), which should be read in conjunction with these interim condensed consolidated financial statements.

USE OF ESTIMATES — The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Estimates are used when accounting for items and matters including, but not limited to, revenue recognition, residual values, vendor consideration, lease classification, goodwill and intangible assets, reserves for credit losses, inventory obsolescence, and the recognition and measurement of income tax assets and other provisions and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

CONCENTRATIONS OF RISK — A substantial portion of our sales are products from Cisco Systems, which were 45% of our technology segment’s net sales for both the three months ended September 30, 2018 and 2017, and 43% and 47% of our technology segment’s net sales for the six months ended September 30, 2018 and 2017, respectively.

SIGNIFICANT ACCOUNTING POLICIES — The significant accounting policies used in preparing these Consolidated Financial Statements were applied on a basis consistent with those reflected in our Consolidated Financial Statements for the year ended March 31, 2018, except for changes from the adoption of Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), as amended (“ASU 2014-09”). This Update adds Topic 606, Revenue from Contracts with Customers (“Topic 606”) to the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“Codification”). The updates to our accounting policies from adopting ASU 2014-09 are provided below.

REVENUE RECOGNITION — We recognize the majority of our revenues from the sales of third party products, third party software, third party services such as maintenance and software support and from sales of ePlus professional and managed services, and from hosting ePlus proprietary software. We recognize revenue from these sales under the guidance in Codification Topic 606.

The core principle of Codification Topic 606 is that an entity should recognize revenue for the transfer of goods and services equal to an amount it expects to be entitled to receive for those goods and services. We account for a contract under Codification Topic 606 when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are established, the contract has commercial substance, and collectability of consideration is probable.

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Revenues are reported net of sales refunds, including an estimate of future returns based on an evaluation of historical sales returns, current economic conditions, volume, and other relevant factors.

Our contracts with customers may include multiple promises that are distinct performance obligations. For such arrangements, we allocate the transaction price to each performance obligation based on its relative standalone selling price. We determine standalone selling prices using expected cost plus margin.

We recognize revenue when (or as) we satisfy a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service. Depending on the nature of each performance obligation, this may be at a point in time or over time, as further described below.

We typically invoice our customers for third party products upon shipment, unless our customers lease the equipment through our financing segment, in which case the arrangement is accounted for as a lease in accordance with Codification Topic 840, Leases. We typically invoice our customers for third party software upon delivery and third party services at the point of sale, unless our customers finance these assets equipment through our financing segment, in which case we record a financing receivable based on the terms of the arrangement.

Sales of third party products

We are the principal in sales of third party products. As such, we recognize sales on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product recognized as cost of sales. We recognize revenue from these sales at the point in time that control passes to the customer, which is typically upon delivery of the product to the customer.

In some instances, our customers may request that we bill them for a product but retain physical possession of the product until later delivery, commonly known as “bill-and-hold” arrangements. In these transactions, we recognize revenue when the customer has signed a bill-and-hold agreement with us, the product is identified separately as belonging to the customer and, when orders include configuration, such configuration is complete and the product is ready for delivery to the customer.

We recognize sales of leased equipment within our financing segment when control passes to the customer, which is typically the date of sale.

Sales of third party software

We are typically the principal in sales of third party software. Sales are recognized on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product recognized as cost of sales. We recognize revenue from these sales at the point in time that control passes to the customer, which is typically upon delivery of the software to the customer.

We often sell third party support accompanying third party software. When the third party software benefits the customer only in conjunction with the accompanying support, such as in sales of anti-virus software and support, we consider the third party software and support as inputs to a single performance obligation. The third party controls the service as it is transferred to the customer and therefore we are acting as an agent in these transactions. We recognize revenue from these sales on a net basis when our customer and vendor accept the terms and conditions of the arrangement.

Sales of third party maintenance, software support, and services

We are the agent in sales of third party maintenance, software support, and services as the third party controls the service until it is transferred to the customer. We recognize sales on a net basis equal to the selling price to the customer less the acquisition cost. We recognize revenue from these sales when our customer and vendor accept the terms and conditions of the arrangement.

Sales of ePlus professional and managed services

Our ePlus professional services offerings include assessments, project management, and staging, configuration, and integration. Our ePlus managed service offerings range from monitoring and notification to a fully outsourced network management solution. In these arrangements, we satisfy our performance obligation and recognize revenue over time.

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We provide ePlus professional services under both time and materials and fixed price contracts. When services are provided on a time and materials basis, we recognize sales at agreed-upon billing rates as services are performed. When services are provided on a fixed fee basis, we recognize sales over time in proportion to our progress toward complete satisfaction of the performance obligation. We measure progress based on costs incurred in proportion to total estimated costs, commonly referred to as the “cost-to-cost” method.

In arrangements for ePlus managed services, our arrangement is typically a single performance obligation comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e., distinct days of service). We typically recognize sales from these services on a straight-line basis over the period services are provided.

We host ePlus proprietary software, including OneSource IT+, OneSource Procurement, and OneSource Catalog+, for customers as a service. We recognize the transaction price for the hosting services evenly over the hosting period.

Freight and sales tax

We present freight billed to our customers within sales and the related freight charged to us within cost of sales. We present sales tax collected from customers and remittances to governmental authorities on a net basis.

Financing revenue and other

We account for leases to customers in accordance with Codification Topic 840, Leases. Our accounting for leases is different depending on the type of lease. Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate.

We consider whether a lease meets any of the following four criteria as part of classifying the lease at its inception:

- the lease transfers ownership of the property to the lessee by the end of the lease term;
- the lease contains a bargain purchase option;
- the lease term is equal to 75 percent or more of the estimated economic life of the leased property; or
- the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property at the inception of the lease.

If a lease meets any of the four lease classification criteria and gives rise to dealer’s profit, we classify the lease as a sales-type lease. For sales-type leases, we recognize sales equal to the present value of the minimum lease payments discounted using the implicit interest rate in the lease and cost of sales equal to carrying amount of the asset being leased and any initial direct costs incurred, less the present value of the unguaranteed residual. Interest income from the lease is recognized in sales over the lease term in our financing segment.

If a lease meets any of the four lease classification criteria, and does not give rise to dealer’s profit, we classify the lease as a direct financing lease. For direct financing leases, the difference between our gross investment in the lease and the cost of the leased property is deferred as unearned income and recognized as sales over the lease term.

If a lease meets none of the four lease classification criteria, we classify the lease as an operating lease. For operating leases, we recognize the rent charged on the lease as sales on a straight-line basis ratably over the term of the lease agreement.

We may also finance third-party software and third party services for our customers, which are classified as notes receivable. We recognize interest on notes receivable in net sales.

Codification Topic 860 Transfers and Servicing 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 secured borrowing. Certain assignments of notes receivable and direct finance and sales-type leases we make on a non-recourse basis meet the requirements for sale accounting set forth by this topic, and have therefore been treated in our financial results as sales, where we recognize a net gain or loss on these transactions in sales.

CONTRACT BALANCES — We recognize contract liabilities when cash payments are received or due in advance of our performance.

COSTS OF OBTAINING A CONTRACT — We capitalize costs that are incremental to obtaining customer contracts, predominately sales commissions, and expense them in proportion to each completed contract performance obligation.

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2. RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS —We adopted ASU 2014-09 on April 1, 2018, using the full retrospective method. Under the full retrospective method, we apply the guidance retrospectively to each prior reporting period presented. The impact from the adopting ASU 2014-09 on our consolidated balance sheet as of March 31, 2018, was a decrease in accounts receivable – trade of $1.9 million, an increase in accounts receivable – other of $1.9 million, a decrease in deferred costs of $3.2 million, and a decrease in deferred revenues of $3.2 million. There is no impact to our retained earnings as of March 31, 2018. The impact on our consolidated statement of operations was a decrease in net sales and cost of sales by $0.5 million for the three months ended September 30, 2017 and an increase of $6.7 million in net sales and cost of sales for the six months ended September 30, 2017.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED —In June 2016, the FASB issued ASU 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update requires adoption under a modified retrospective approach and will become effective for us in the quarter ending June 30, 2020. Early adoption is permitted beginning in our quarter ending June 30, 2019. We are currently evaluating the impact of this update on our financial statements.

In November 2016, the FASB issued ASU 2016-02, Leases, which will supersede the current US GAAP on this topic. The core principle of this update is that a lessee should recognize the assets and liabilities that arise from leases. This update requires adoption under the modified retrospective approach and becomes effective for us in our quarter ending June 30, 2019. Early adoption is permitted. We are currently evaluating the impact of this update on our financial statements.

3. REVENUES

Contract balances

Accounts receivable – trade represents amounts due from contracts with customers. In addition, we had $38.0 million and $28.1 million of receivables from contracts with customers included within financing receivables as of September 30, 2018 and March 31, 2018, respectively. The following table provides the balance of contract liabilities from contracts with customers (in thousands):

Contract liabilities	September 30, 2018	March 31, 2018
Current (included in deferred revenue)	$ 35,036	$ 34,643
Non-current (included in other liabilities)	$ 13,430	$ 12,699

Revenue recognized from the beginning contract liability balance was $8.1 million and $20.9 million for the three and six months ended September 30, 2018, respectively, and $36.0 million and $55.5 million for the three and six months ended September 30, 2017, respectively.

Performance obligations

The following table includes revenue expected to be recognized in the future related to performance obligations, primarily non-cancelable contracts for ePlus managed services, that are unsatisfied or partially unsatisfied at the end of the reporting period, in thousands. The table does not include the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts where we recognize revenue at the amount that we have the right to invoice for services performed.

Remaining six months of fiscal 2019	$12,337
Fiscal 2020	12,607
Fiscal 2021	6,837
Fiscal 2022	1,078
Fiscal 2023	302
Fiscal 2024	2
Total remaining performance obligations	$33,163

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4. FINANCING RECEIVABLES AND OPERATING LEASES

Our financing receivables and operating leases consist of assets that we finance for our customers, which we manage as a portfolio of investments. Equipment financed for our customers is accounted for as investments in direct financing, sales-type or operating leases in accordance with Codification Topic 840, Leases. We also finance third-party software, maintenance, and services for our customers, which are classified as notes receivables. Our notes receivables are interest bearing and are often due over a period of time that corresponds with the terms of the leased products.

FINANCING RECEIVABLES—NET

Our financing receivables-net consist of the following (in thousands):

September 30, 2018	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 72,585	$ 77,825	$ 150,410
Estimated unguaranteed residual value (1)	-	12,805	12,805
Initial direct costs, net of amortization (2)	629	397	1,026
Unearned income	-	(9,409)	(9,409)
Reserve for credit losses (3)	(483)	(598)	(1,081)
Total, net	$ 72,731	$ 81,020	$ 153,751
Reported as:			
Current	$ 52,409	$ 33,844	$ 86,253
Long-term	20,322	47,176	67,498
Total, net	$ 72,731	$ 81,020	$ 153,751

(1) Includes estimated unguaranteed residual values of $7,074 thousand for direct financing leases, which have been sold and accounted for as sales.
(2) Initial direct costs are shown net of amortization of $357 thousand.
(3) For details on reserve for credit losses, refer to Note 6, "Reserves for Credit Losses."

March 31, 2018	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 62,992	$ 65,943	$ 128,935
Estimated unguaranteed residual value (1)	-	11,226	11,226
Initial direct costs, net of amortization (2)	375	334	709
Unearned income	-	(8,251)	(8,251)
Reserve for credit losses (3)	(486)	(640)	(1,126)
Total, net	$ 62,881	$ 68,612	$ 131,493
Reported as:			
Current	$ 39,993	$ 29,943	$ 69,936
Long-term	22,888	38,669	61,557
Total, net	$ 62,881	$ 68,612	$ 131,493

(1) Includes estimated unguaranteed residual values of $6,004 thousand for direct financing leases that have been sold and accounted for as sales.
(2) Initial direct costs are shown net of amortization of $341 thousand.
(3) For details on reserve for credit losses, refer to Note 6, "Reserves for Credit Losses."

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OPERATING LEASES—NET

Operating leases—net represents leases that do not qualify as direct financing leases. The components of the operating leases—net are as follows (in thousands):

	September 30, 2018	March 31, 2018
Cost of equipment under operating leases	$ 20,738	$ 15,683
Accumulated depreciation	(9,117)	(8,729)
Investment in operating lease equipment—net (1)	$ 11,621	$ 6,954

(1) Includes estimated unguaranteed residual values of $2,931 thousand and $1,921 thousand as of September 30, 2018 and March 31, 2018, respectively.

TRANSFERS OF FINANCIAL ASSETS

We enter into arrangements to transfer the contractual payments due under financing receivables and operating lease agreements, which are accounted for as sales or secured borrowings in accordance with Codification Topic 860, Transfers and Servicing. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. As of September 30, 2018 and March 31, 2018, we had financing receivables of $61.8 million and $52.0 million, respectively, and operating leases of $9.3 million and $5.3 million, respectively, which were collateral for non-recourse notes payable. See Note 8, "Notes Payable and Credit Facility."

For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which are presented within net sales in the consolidated statement of operations. During each of the three months ended September 30, 2018 and 2017, we recognized net gains of $1.2 million, and total proceeds from these sales were $47.2 million and $48.3 million, respectively. During the six months ended September 30, 2018 and 2017, we recognized net gains of $2.5 million and $3.5 million, respectively, and total proceeds from these sales were $94.0 million and $134.1 million, respectively.

For certain assignments of financial assets, we retain a servicing obligation. For assignments accounted for as sales, we allocate a portion of the proceeds to deferred revenues, which is recognized as we perform the services. As of September 30, 2018 and March 31, 2018, we had deferred revenue of $0.4 million and $0.5 million, respectively, for servicing. In a limited number of such sales, we indemnified the assignee in the event that the lessee elected to terminate the lease early. As of September 30, 2018, our maximum potential future payments related to such guarantees is $0.3 million. We believe the likelihood of making any such payments to be remote.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL

The following table summarizes the changes in the carrying amount of goodwill (in thousands):

Six Months Ended September 30, 2018			Six Months Ended September 30, 2017		
Goodwill	Accumulated Impairment Loss	Net Carrying Amount	Goodwill	Accumulated Impairment Loss	Net Carrying Amount

Beginning Balance	$85,297	$ (8,673)	$76,624	$57,070	$ (8,673)	$48,397
Acquisitions	-	-	-	27,939	-	27,939
Foreign currency translations	(179)	-	(179)	134	-	134
Ending Balance	$85,118	$ (8,673)	$76,445	$85,143	$ (8,673)	$76,470

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets that are individually identified and separately recognized in business combinations. All of our goodwill as of September 30, 2018 and March 31, 2018 is related to our technology reportable segment, which we also determined to be one reporting unit.

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See Note 16, "Business Combinations" for additional information regarding prior year acquisitions.

We test goodwill for impairment on an annual basis, as of the first day of our third fiscal quarter, and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying value.

OTHER INTANGIBLE ASSETS

Our other intangible assets consist of the following (in thousands):

	September 30, 2018			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount
Customer relationships & other intangibles	$41,974	$ (22,026)	$19,948	$41,895	$ (18,634)	$23,261
Capitalized software development	6,136	(2,279)	3,857	5,608	(2,567)	3,041
Total	$48,110	$ (24,305)	$23,805	$47,503	$ (21,201)	$26,302

Customer relationships and capitalized software development costs are amortized over an estimated useful life, which is generally between 3 to 8 years. Trade names and trademarks are amortized over an estimated useful life of 10 years.

Total amortization expense for other intangible assets was $1.8 million and $1.2 million for the three months and $3.1 million and $2.4 million for the six months ended September 30, 2018 and 2017, respectively. The change in the gross carrying amount of other intangible assets is due to foreign exchange translations.

6. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses were as follows (in thousands):

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2018	$ 1,538	$ 486	$ 640	$2,664
Provision for credit losses	127	(3)	(42)	82
Write-offs and other	(1)	-	-	(1)
Balance September 30, 2018	$ 1,664	$ 483	$ 598	$2,745

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2017	$ 1,279	$ 3,434	$ 679	$5,392
Provision for credit losses	(5)	27	133	155
Write-offs and other	-	(3,020)	(164)	(3,184)
Balance September 30, 2017	$ 1,274	$ 441	$ 648	$2,363

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Our reserves for credit losses and minimum payments associated with our notes receivables and lease-related receivables disaggregated based on of our impairment method were as follows (in thousands):

	September 30, 2018		March 31, 2018	
	Notes Receivable	Lease-Related Receivables	Notes Receivable	Lease-Related Receivables
Reserves for credit losses:				
Ending balance: collectively evaluated for impairment	$ 421	$ 598	$ 424	$ 640
Ending balance: individually evaluated for impairment	62	-	62	-
Ending balance	$ 483	$ 598	$ 486	$ 640
Minimum payments:				
Ending balance: collectively evaluated for impairment	$ 72,523	$ 77,825	$ 62,930	$ 65,943
Ending balance: individually evaluated for impairment	62	-	62	-
Ending balance	$ 72,585	$ 77,825	$ 62,992	$ 65,943

We place receivables on non-accrual status when events, such as a customer's declaring bankruptcy, occur that indicate a receivable will likely not be collectable. We charge off uncollectable financing receivables when we stop pursuing collection.

The age of the recorded minimum lease payments and net credit exposure associated with our investment in direct financing and sales-type leases that are past due disaggregated based on our internally assigned credit quality rating ("CQR") were as follows as of September 30, 2018 and March 31, 2018 (in thousands):

	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Unbilled Minimum Lease Payments	Total Minimum Lease Payments	Unearned Income	Non-Recourse Notes Payable	Net Credit Exposure
September 30, 2018										
High CQR	$ 201	$ 39	$ 37	$ 277	$ 73	$ 37,216	$ 37,566	$ (4,331)	$ (20,572)	$ 12,663
Average CQR	129	57	50	236	42	39,981	40,259	(3,125)	(24,424)	12,710
Low CQR	-	-	-	-	-	-	-	-	-	-
Total	$ 330	$ 96	$ 87	$ 513	$ 115	$ 77,197	$ 77,825	$ (7,456)	$ (44,996)	$ 25,373
March 31, 2018										
High CQR	$ 143	$ 40	$ 43	$ 226	$ 224	$ 33,779	$ 34,229	$ (3,743)	$ (17,207)	$ 13,279
Average CQR	109	31	117	257	171	31,286	31,714	(2,749)	(16,012)	12,953
Low CQR	-	-	-	-	-	-	-	-	-	-
Total	$ 252	$ 71	$ 160	$ 483	$ 395	$ 65,065	$ 65,943	$ (6,492)	$ (33,219)	$ 26,232

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The age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows (in thousands):

	31-60 Days Past Due	61-90 Days Past Due 2017	Greater than 90 Days Past Due	Total Past Due	Current	Unbilled Notes Receivable	Total Notes Receivable	Non-Recourse Notes Payable	Net Credit Exposure
September 30, 2018									
High CQR	$2,422	$45	$ 745	$3,212	$1,352	$ 53,978	$ 58,542	$(43,655)	$14,887
Average CQR	453	13	18	484	629	12,868	13,981	(8,012)	5,969
Low CQR	-	-	62	62	-	-	62	-	62
Total	$2,875	$58	$ 825	$3,758	$1,981	$ 66,846	$ 72,585	$(51,667)	$20,918
March 31, 2018									
High CQR	$175	$527	$ 423	$1,125	$3,262	$ 40,896	$ 45,283	$(30,345)	$14,938
Average CQR	42	409	22	473	394	16,780	17,647	(10,424)	7,223
Low CQR	-	-	62	62	-	-	62	-	62
Total	$217	$936	$ 507	$1,660	$3,656	$ 57,676	$ 62,992	$(40,769)	$22,223

We estimate losses on our net credit exposure to be between 0% - 5% for customers with highest CQR, as these customers are investment grade or the equivalent of investment grade. We estimate losses on our net credit exposure to be between 2% - 15% for customers with average CQR, and between 15% - 100% for customers with low CQR, which includes customers in bankruptcy.

7. PROPERTY, EQUIPMENT, OTHER ASSETS AND LIABILITIES

Our property, equipment, other assets and liabilities consist of the following (in thousands):

	September 30, 2018	March 31, 2018
Other current assets:		
Deposits & funds held in escrow	$ 4,203	$ 16,202
Prepaid assets	5,941	7,031
Other	572	392
Total other current assets	$ 10,716	$ 23,625
Property, equipment and other assets		
Property and equipment, net	$ 6,936	$ 7,510
Deferred costs	9,524	9,302
Other	1,577	2,331
Total other assets - long term	$ 18,037	$ 19,143
Other current liabilities:		
Accrued expenses	$ 7,081	$ 8,339
Accrued income taxes payable	283	175
Contingent consideration - current	5,888	5,806
Other	7,446	19,050

Total other current liabilities	$ 20,698	$ 33,370
<u>Other liabilities:</u>		
Deferred revenue	$ 13,626	$ 12,910
Contingent consideration - long-term	7,608	7,707
Other	-	450
Total other liabilities - long term	$ 21,234	$ 21,067

In the above table, deposits and funds held in escrow relate to financial assets that were sold to third-party banks. In conjunction with those sales, a portion of the proceeds was placed in escrow and will be released to us upon payment of outstanding invoices related to the underlying financing arrangements that were sold.

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8. NOTES PAYABLE AND CREDIT FACILITY

Non-recourse and recourse obligations consist of the following (in thousands):

	September 30, 2018	March 31, 2018
Recourse notes payable with interest rate of 4.11% at March 31, 2018.		
Current	$ -	$ 1,343
Non-recourse notes payable secured by financing receivables and investments in operating leases with interest rates ranging from 2.04% to 8.45% as of March 31, 2018 and 3.04% to 8.45% as of September 30, 2018.		
Current	$ 52,630	$ 40,863
Long-term	12,656	10,072
Total non-recourse notes payable	$ 65,286	$ 50,935

Principal and interest payments on non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the customer under the leases or notes receivable that collateralize the notes payable. The weighted average interest rate for our non-recourse notes payable was 4.31% and 4.04%, as of September 30, 2018 and March 31, 2018, respectively. The weighted average interest rate for our recourse notes payable was 4.11% as of March 31, 2018. Under recourse financing, if a customer defaults, the lender has recourse to the customer, the assets serving as collateral, and us. Under non-recourse financing, if a customer defaults, the lender generally only has recourse against the customer and the assets serving as collateral, but not us.

Our technology segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or (“WFCDF”). This facility provides short-term capital for our technology segment. There are two components of the WFCDF credit facility: (1) a floor plan component, and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $120.8 million and $112.1million as of September 30, 2018 and March 31, 2018, respectively. Under the accounts receivable component, we had no outstanding balances as of September 30, 2018 and March 31, 2018.

As of September 30, 2018, the facility had an aggregate limit of $325 million for the two components, and the accounts receivable component had a sub-limit of $30 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one half percent.

The credit facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as chattel paper, receivables and inventory. Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and ePlus Technology, inc.’s. minimum earnings before interest, taxes, depreciation and amortization (“EBITDA”). We were in compliance with these covenants as of September 30, 2018. In addition, the facility restricts the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans, or advances with certain exceptions for dividends to ePlus inc. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days at the end of each quarter and 90 days of each fiscal year end, and that other operational reports be provided on a regular basis. Either party may terminate the credit facility with 90 days’ advance written notice. We are not, and do not believe that we are reasonably likely to be, in breach of the WFCDF credit facility. In addition, we do not believe that the covenants of the WFCDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The WFCDF facility requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2018, as required. The loss of the WFCDF 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 segment, and as an operational function of our accounts payable process.

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On July 27, 2017, we executed an amendment to the WFCDF credit facility that temporarily increases the aggregate limit of the two components from $250.0 million to $325.0 million from the date of the agreement through October 31, 2018. The amendment also provides us an election beginning July 1 in each subsequent year to similarly temporarily increase the aggregate limit of the two components to $325.0 million ending the earlier of 90 days following the date of election or October 31 of that same year. On July 17, 2018, we elected to temporarily increase the aggregate limit to $325.0 million.

Fair Value

As of September 30, 2018 and March 31, 2018, the fair value of our long-term recourse and non-recourse notes payable approximated their carrying value.

9. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, we may be subject to legal proceedings that arise in the ordinary course of business. In the opinion of management, there was not at least a reasonable possibility that the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of legal proceedings and claims brought against us is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management’s expectations, the Company’s consolidated financial statements for that reporting period could be materially adversely affected.

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings available to common shareholders by the basic weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by dividing net earnings available to common shareholders by the basic weighted average number of shares of common stock outstanding plus common stock equivalents during each period.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed on our unaudited consolidated statements of operations (in thousands, except per share data).

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Net earnings attributable to common shareholders - basic and diluted	$ 18,003	$ 17,221	$ 33,276	$ 30,644
Basic and diluted common shares outstanding:				
Weighted average common shares outstanding — basic	13,494	13,879	13,464	13,843
Effect of dilutive shares	92	129	133	178
Weighted average shares common outstanding — diluted	13,586	14,008	13,597	14,021
Earnings per common share - basic	$ 1.33	$ 1.24	$ 2.47	$ 2.21
Earnings per common share - diluted	$ 1.33	$ 1.23	$ 2.45	$ 2.19

11. STOCKHOLDERS' EQUITY

Share Repurchase Plan

On August 15, 2017, our board of directors authorized the repurchase of up to 500,000 shares of our outstanding common stock over a 12-month period beginning on August 19, 2017, which expired during the current quarter.. The plan authorized purchases to be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes.

On April 26, 2018, our board of directors authorized the repurchase up to 500,000 shares of our outstanding common stock over a 12-month period beginning on May 28, 2018. The plan authorized purchases to be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes.

During the six months ended September 30, 2018, we purchased 70,445 shares of our outstanding common stock at a value of $5.5 million under the share repurchase plan; we also purchased 40,092 shares of common stock at a value of $3.9 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

During the six months ended September 30, 2017, we did not purchase any shares of our outstanding common stock under the share repurchase plan; however, we purchase 57,725 shares of common stock at a value of $4.4 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

12. SHARE-BASED COMPENSATION

Share-Based Plans

As of September 30, 2018, we had share-based awards outstanding under the following plans: (1) the 2008 Non-Employee Director Long-Term Incentive Plan ("2008 Director LTIP"), (2) the 2017 Non-Employee Director Long-Term Incentive Plan ("2017 Director LTIP"), and (3) the 2012 Employee Long-Term Incentive Plan ("2012 Employee LTIP"). Both of the share-based plans define fair market value as the previous trading day's closing price when the grant date falls on a date the stock was not traded.

Restricted Stock Activity

For the six months ended September 30, 2018, we granted 8,322 restricted shares under the 2017 Director LTIP, and 69,847 restricted shares under the 2012 Employee LTIP. For the six months ended September 30, 2017, we granted 535 restricted shares under the 2008 Director LTIP, 5,112 restricted shares under the 2017 Director LTIP, and 66,530 restricted shares under the 2012 Employee LTIP. A summary of the restricted shares is as follows:

	Number of Shares	Weighted Average Grant-date Fair Value
Nonvested April 1, 2018	282,235	$ 51.69
Granted	78,169	$ 94.31
Vested	(133,106)	$ 49.15
Forfeited	(914)	$ 58.49
Nonvested September 30, 2018	226,384	$ 67.87

Upon each vesting period of the restricted stock awards, employees are subject to minimum tax withholding obligations. Under the 2012 Employee LTIP, we may purchase a sufficient number of shares due to the participant to satisfy their minimum tax withholding on employee stock awards. To satisfy this tax withholding obligation, the Company purchased 40,092 shares of the awarded common stock shares at a value of $3.9 million, which we included in treasury stock, during the six months ended September 30, 2018,.

Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period. There are no additional conditions for vesting other than service conditions. During the three months ended September 30, 2018 and 2017, we recognized $1.9 million and $1.5 million, respectively, of total share-based compensation expense. During the six months ended September 30, 2018 and 2017, we recognized $3.6 million and $3.0 million, respectively, of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was $13.2 million as of September 30, 2018, which will be fully recognized over the next thirty three (33) months.

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We also provide our employees with a contributory 401(k) profit sharing plan, to which we may contribute from time to time at our sole discretion. Employer contributions to the plan are fully vested at all times. For both the three months ended September 30, 2018 and 2017, our estimated contribution expense for the plan was $0.5 million. For the six months ended September 30, 2018 and 2017, our estimated contribution expense for the plan was $1.0 million and $1.1 million, respectively.

13. INCOME TAXES

We account for our tax positions in accordance with Codification Topic 740, Income Taxes. Under the guidance, we evaluate uncertain tax positions based on the two-step approach. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained in an audit, including resolution of related appeals or litigation processes, if any. For tax positions that are not likely to be sustained upon audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement.

Our total gross unrecognized tax benefits recorded for uncertain income tax, and interest and penalties thereon, were negligible as of September 30, 2018 and September 30, 2017. We had no additions or reductions to our gross unrecognized tax benefits during the three and six months ended September 30, 2018. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

We account for the fair values of our assets and liabilities in accordance with Codification Topic 820, Fair Value Measurement and Disclosure. The following table summarizes the fair value hierarchy of our financial instruments (in thousands):

		Fair Value Measurement Using		
	Recorded Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Assets:				
Money market funds	$ 25,116	$ 25,116	$ -	$ -
Liabilities:				
Contingent consideration	$ 13,496	$ -	$ -	$ 13,496
March 31, 2018				
Assets:				
Money market funds	$ 60,385	$ 60,385	$ -	$ -
Liabilities:				
Contingent consideration	$ 13,513	$ -	$ -	$ 13,513

For the three and six months ended September 30, 2018, we recorded adjustments to operating expenses that increased the fair value of our liability for contingent consideration by $0.7 million and $1.1 million, respectively. For both the three and six months ended September 30, 2018, we made payments of $1.1 million to satisfy the current obligations of the contingent consideration arrangements.

For the three months ended September 30, 2017, we increased the fair value of our liability for contingent consideration by $10.3 million consisting of establishing a liability from business combinations of $10.0 million and $0.3 million in adjustments recorded to operating expenses. For the six ended September 30, 2017, we increased the fair value of our liability for contingent consideration by $12.4 million consisting of establishing a liability from business combinations of $12.1 million and $0.3 million in adjustments recorded to operating expense. For the three and six months ended September 30, 2017, we made no payments and payments of $0.3 million, respectively, to satisfy the current obligations of contingent consideration arrangements.

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15. SEGMENT REPORTING

Our operations are conducted through two operating segments that are also both reportable segments. Our technology segment includes sales of IT products, third-party software, third-party maintenance, advanced professional and managed services, and our proprietary software to commercial enterprises, state and local governments, and government contractors. Our financing segment consists of the financing of IT equipment, software, and related services to commercial enterprises, state and local governments, and government contractors. We measure the performance of the segments based on operating income.

Our reportable segment information was as follows (in thousands):

	Three Months Ended					
	September 30, 2018			September 30, 2017		
	Technology	Financing	Total	Technology	Financing	Total
Contracts with customers	$329,682	$1,060	$330,742	$352,843	$4,916	$357,759
Financing and other	5,086	9,215	14,301	5,835	7,769	13,604
Net sales	$334,768	$10,275	$345,043	$358,678	$12,685	$371,363
Cost of sales	257,813	1,730	259,543	281,829	1,963	283,792
Gross Profit	76,955	8,545	85,500	76,849	10,722	87,571
Selling, general, and administrative	55,138	2,567	57,705	53,503	2,837	56,340
Depreciation and amortization	2,740	1	2,741	2,128	1	2,129
Interest and financing costs	-	484	484	-	274	274
Operating expenses	57,878	3,052	60,930	55,631	3,112	58,743
Operating income	19,077	5,493	24,570	21,218	7,610	28,828
Other income (expense)			322			(141)
Earnings befor tax			$24,892			$28,687
Selected Financial Data - Statement of Cash Flow						
Depreciation and amortization	$2,970	$1,397	$4,367	$2,161	$1,359	$3,520
Purchases of property, equipment and operating lease equipment	$1,796	$3,025	$4,821	$955	$610	$1,565
Selected Financial Data - Balance Sheet						
Total assets	$565,771	$209,425	$775,196	$563,646	$170,641	$734,287

	Six Months Ended					
	September 30, 2018			September 30, 2017		
	Technology	Financing	Total	Technology	Financing	Total
Contracts with customers	$671,141	$1,656	$672,797	$712,204	$7,731	$719,935
Financing and other	10,491	18,287	28,778	9,373	15,411	24,784
Net sales	$681,632	$19,943	$701,575	$721,577	$23,142	$744,719

Cost of sales	531,894	3,478	535,372	575,095	4,460	579,555
Gross Profit	149,738	16,465	166,203	146,482	18,682	165,164
Selling, general, and administrative	109,592	5,079	114,671	105,004	6,000	111,004
Depreciation and amortization	5,529	2	5,531	4,190	2	4,192
Interest and financing costs	-	960	960	-	633	633
Operating expenses	115,121	6,041	121,162	109,194	6,635	115,829
Operating income	34,617	10,424	45,041	37,288	12,047	49,335
Other income (expense)			419			130
Earnings befor tax			$45,460			$49,465
<u>Selected Financial Data - Statement of Cash Flow</u>						
Depreciation and amortization	$5,985	$2,882	$8,867	$4,256	$2,489	$6,745
Purchases of property, equipment and operating lease equipment	$2,976	$3,475	$6,451	$2,046	$1,390	$3,436
<u>Selected Financial Data - Balance Sheet</u>						
Total assets	$565,771	$209,425	$775,196	$563,646	$170,641	$734,287

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Technology Segment Disaggregation of Revenue

We analyze net sales for our technology segment by customer end market and by vendor, as opposed to discrete product and service categories, which are summarized below (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Customer end market:				
Technology	$75,417	$91,401	$158,234	$180,755
Telecom, Media & Entertainment	39,412	49,508	86,280	106,913
Financial Services	47,412	52,507	92,638	90,798
SLED	61,391	66,493	129,596	143,656
Healthcare	51,081	44,372	97,531	90,857
All others	60,055	54,397	117,353	108,598
Net sales	334,768	358,678	681,632	721,577
Financing and other	(5,086)	(5,835)	(10,491)	(9,373)
Revenue from contracts with customers	$329,682	$352,843	$671,141	$712,204

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Vendor				
Cisco Systems	$152,063	$165,690	$291,300	$339,035
NetApp	9,477	10,433	25,039	25,887
HP Inc. & HPE	16,658	28,377	36,977	56,648
Dell / EMC	19,895	17,485	32,398	30,898
Arista Networks	10,673	7,153	30,471	24,527
Juniper	11,262	14,240	21,660	23,576
All others	114,740	115,300	243,787	221,006
Net sales	334,768	358,678	681,632	721,577
Financing and other	(5,086)	(5,835)	(10,491)	(9,373)
Revenue from contracts with customers	$329,682	$352,843	$671,141	$712,204

Financing Segment Disaggregation of Revenue

We analyze our revenues within our financing segment based on the nature of the arrangement, and our revenues from contracts with customers consist of proceeds from the sale of off-lease equipment.

16. BUSINESS COMBINATIONS

Integrated Data Storage, LLC acquisition

On September 15, 2017, our subsidiary ePlus Technology, inc. acquired certain assets and assumed certain liabilities of Integrated Data Storage, LLC (“IDS”) though an asset purchase agreement. Headquartered in Oak Brook, Illinois and with offices in downtown Chicago, Illinois and Indianapolis, Indiana, IDS brought us an advanced data center solutions provider focused on cloud enablement and managed services, including its proprietary IDS Cloud, which features enterprise-class technology infrastructure coupled with consulting services to support private, hybrid, and public cloud deployments. The acquisition expanded ePlus' footprint in the Midwest and enhances its sales and engineering capabilities in cloud services, disaster recovery and backup as a service, storage, data center, and professional services.

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Our sum of total consideration transferred was $38.4 million, consisting of $29.8 million paid in cash at closing, less $1.4 million paid back as a working capital adjustment, plus an additional $10.0 million equal to the acquisition date fair value of consideration that is contingent on the acquired business' future gross profit. The contingent consideration was calculated using the Monte Carlo simulation model based on our projections of future gross profits. The maximum payout of the contingent consideration is $15.0 million paid over 3 years. Our allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

	Acquisition Date Amount
Accounts receivable and other assets	$ 14,353
Property and equipment	1,620
Identified intangible assets	13,650
Accounts payable and other current liabilities	(12,313)
Total identifiable net assets	17,310
Goodwill	21,088
Total purchase consideration	$ 38,398

The identified intangible assets of $13.7 million consist of customer relationships with an estimated useful life of 8 years. The fair value of acquired receivables equals the gross contractual amounts receivable. We expect to collect all acquired receivables.

We recognized goodwill related to this transaction of $21.1 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill is expected to be deductible for tax purposes. The amount of revenues and earnings of the acquiree since the acquisition date are not material. Likewise, the impact to the revenue and earnings of the combined entity for the current reporting period through the acquisition date had the acquisition date been April 1, 2017, is not material.

OneCloud Consulting Inc.

On May 17, 2017, our subsidiary ePlus Technology, inc., acquired 100% of the stock of OneCloud Consulting, Inc. ("OneCloud"). Based in Milpitas, California, and with locations in India, OneCloud brought us a versatile team of highly trained technology consultants, architects, developers and instructors. Though OneCloud, we enable our customers' cloud and application strategy via professional services, technical education and software development. The acquisition provides us with additional ability to address customers' need for cloud-based solutions and infrastructure, including DevOps, OpenStack, and other emerging technologies.

Our sum of total consideration transferred was $10.0 million consisting of $7.9 million paid in cash at closing, net of cash acquired, and $2.1 million equal to the fair value of contingent consideration, calculated using the Monte Carlo simulation model. The maximum payout of the contingent consideration is $4.5 million paid over 3 years.

Our allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

	Acquisition Date Amount
Accounts receivable and other assets	$ 488
Identified intangible assets	4,130

Accounts payable and other current liabilities		(1,822)
Total identifiable net assets		2,796
Goodwill		7,189
Total purchase consideration	$	9,985

The identified intangible assets of $4.1 million consist of customer relationships of $1.7 million with an estimated useful life of 8 years, and internally developed processes of $2.4 million with an estimated useful life of 5 years.

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We recognized goodwill related to this transaction of $7.2 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill is expected to be deductible for tax purposes. The amount of revenues and earnings of the acquiree since the acquisition date are not material. Likewise, the impact to the revenue and earnings of the combined entity for the current reporting period through the acquisition date had the acquisition date been April 1, 2017, is not material.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion is intended to further the reader's understanding of our consolidated financial condition and results of operations. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our 2018 Annual Report. These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations may contain forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described in Part I, Item 1A, "Risk Factors," in our 2018 Annual Report, Part II and Item 1A. and "Risk Factors" in our Form 10-Q for the three months ended June 30, 2018.

EXECUTIVE OVERVIEW

Business Description

We are a leading solutions provider that delivers actionable outcomes for organizations using IT and consulting solutions to drive business agility and innovation. Leveraging our engineering talent, we assess, plan, deliver, and secure solutions comprised of leading technologies and consumption models aligned with our customers' needs. Our expertise and experience enable ePlus to craft optimized solutions that take advantage of the cost, scale, and efficiency of private, public, and hybrid cloud in an evolving market. We also provide consulting, professional, managed and complete lifecycle management services including flexible financing solutions. We have been in the business of selling, leasing, financing, and managing IT and other assets for more than 28 years.

Our primary focus is to deliver integrated solutions that address our customers' business needs, leveraging the appropriate Cloud, Security and Digital Infrastructure technologies, both on premise and in the cloud. Our approach is to lead with advisory consulting to understand our customers' needs, and then design, deploy and manage solutions aligned to their objectives. Underpinning the broader areas of Cloud, Security, and Digital Infrastructure are specific skills in orchestration and automation, application modernization, DevOps, data management, data visualization, analytics, network modernization, edge compute and other advanced and emerging technologies. These solutions are comprised of class leading technologies from partners such as Arista Networks, Check Point, Cisco Systems, Citrix, Commvault, Dell EMC, F5 Networks, Gigamon, HP Inc., HPE, Juniper Networks, Lenovo, Microsoft, NetApp, NVIDIA, Oracle, Palo Alto Networks, Pure Storage, Quantum, Splunk, and VMware, among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer multi-vendor IT solutions that are optimized for each of our customers' specific requirements. Our hosted, proprietary software solutions are focused on giving our customers more control over their IT supply chain, by automating and optimizing the procurement and management of their owned, leased, and consumption-based assets.

Our scale and financial resources have enabled us to continue investing in engineering and technology resources to stay current with emerging technology trends. Our expertise in core and emerging technologies, buttressed by our robust portfolio of consulting, professional, and managed services has enabled ePlus to remain a trusted advisor for our customers. In addition, we offer a wide range of consumption options including leasing and financing for technology and other capital assets. We believe our lifecycle approach offering of integrated solutions, services, financing, and our proprietary supply chain software is unique in the industry. This broad portfolio enables us to deliver a unique customer experience that spans the continuum from fast delivery of competitively priced products, services, subsequent management and upkeep, through to end-of-life disposal services. This approach permits ePlus to deploy ever-more-sophisticated solutions enabling our customers' business outcomes.

Our go-to-market strategy focuses primarily on diverse end-markets for middle market to large enterprises in North America and the U.K.. For the trailing twelve month period ended September 30, 2018, the percentage of revenue by customer end market within our technology segment includes technology industry 23%, state and local government and educational institutions ("SLED") 17%, financial services 15%, healthcare 15%, and telecommunications, media and entertainment 13%. The majority of our sales were generated within the United States ("US"); however, we have the ability to support our customers nationally and internationally including physical locations in the U.K. and India. Our technology segment accounts for 97% of our net sales, and 77% of our operating income, while our financing segment accounts for 3% of our net sales, and 23% of our operating income for the six months ended September 30, 2018.

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Key Business Metrics

Our management monitors a number of financial and non-financial measures and ratios on a regular basis to track the progress of our business. We believe that the most important of these measures and ratios include net sales, gross margin, operating income margin, net earnings, net earnings per common share, adjusted EBITDA, adjusted EBITDA margin, adjusted gross billings, and non-GAAP net earnings per share. We use a variety of operating and other information to evaluate the operating performance of our business, develop financial forecasts, make strategic decisions, and prepare and approve annual budgets.

These key indicators include financial information that is prepared in accordance with US GAAP and presented in our unaudited condensed consolidated financial statements, as well as non-GAAP performance measurement tools. Generally, a non-GAAP financial measure is a numerical measure of a company's performance or financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with US GAAP. Non-GAAP measures used by management may differ from similar measures used by other companies, even when similar terms are used to identify such measures.

Our key business metrics are as follows (dollars in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
Consolidated	2018	2017	2018	2017
Net sales	$345,043	$371,363	$701,575	$744,719
Gross profit	$85,500	$87,571	$166,203	$165,164
Gross margin	24.8 %	23.6 %	23.7 %	22.2 %
Operating income margin	7.1 %	7.8 %	6.4 %	6.6 %
Net earnings	$18,003	$17,221	$33,276	$30,644
Net earnings margin	5.2 %	4.6 %	4.7 %	4.1 %
Net earnings per common share - diluted	$1.33	$1.23	$2.45	$2.19
Non-GAAP: Net earnings (1)	$20,779	$23,481	$38,211	$40,315
Non-GAAP: Net earnings per common share - diluted (1)	$1.53	$1.68	$2.81	$2.88
Adjusted EBITDA (2)	$29,880	$33,319	$55,250	$57,726
Adjusted EBITDA margin	8.7 %	9.0 %	7.9 %	7.8 %
Purchases of property and equipment used internally	$1,796	$955	$2,976	$2,046
Purchases of equipment under operating leases	3,025	610	3,475	1,390
Total capital expenditures	$4,821	$1,565	$6,451	$3,436
Technology Segment				
Net sales	$334,768	$358,678	$681,632	$721,577
Adjusted gross billings (3)	$485,856	$504,500	$968,157	$992,004
Gross profit	$76,955	$76,849	$149,738	$146,482
Gross margin	23.0 %	21.4 %	22.0 %	20.3 %
Operating income	$19,077	$21,218	$34,617	$37,288
Adjusted EBITDA (2)	$24,284	$25,613	$44,625	$45,499

Financing Segment				
Net sales	$10,275	$12,685	$19,943	$23,142
Gross profit	$8,545	$10,722	$16,465	$18,682
Operating Income	$5,493	$7,610	$10,424	$12,047
Adjusted EBITDA (2)	$5,596	$7,706	$10,625	$12,227

(1) Non-GAAP net earnings and non-GAAP net earnings per common share – diluted is based on net earnings calculated in accordance with GAAP, adjusted to exclude other income (expense), share based compensation, and acquisition and integration expenses, and the related tax effects. The presentation of non-GAAP net earnings and non-GAAP net earnings per common share – diluted have been updated to include an adjustment to our tax expense assuming a statutory income tax rate of 21.0% for US operations.

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We use non-GAAP net earnings per common share as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income (expense), share based compensation, and acquisition-related amortization expense in calculating non-GAAP net earnings per common share provides management and investors a useful measure for period-to-period comparisons of our business and operating results by excluding items that management believes are not reflective of our underlying operating performance. Accordingly, we believe that non-GAAP net earnings per common share provide useful information to investors and others to understand and evaluate our operating results. However, our use of non-GAAP information as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. In addition, other companies, including companies in our industry, might calculate similar non-GAAP net earnings and non-GAAP net earnings per common share or similarly titled measures differently, which may reduce their usefulness as comparative measures.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
GAAP: Earnings before tax	$ 24,892	$ 28,687	$45,460	$49,465
Share based compensation	1,868	1,673	3,561	3,180
Acquisition and integration expense	701	689	1,117	1,019
Acquisition related amortization expense	1,719	1,186	3,483	2,307
Other (income) expense	(322)	141	(419)	(130)
Non-GAAP: Earnings before provision for income taxes	28,858	32,376	53,202	55,841
GAAP: Provision for income taxes	6,889	11,466	12,184	18,821
Share based compensation	525	483		