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;
-

- 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.

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ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

| | Common Stock | | Additional Paid-In | Treasury | Retained | Accumulated Other 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.

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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 |
| | | |
| Other liabilities: | | |
| 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.

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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 |
| | | | | | | |
| Selected Financial Data - Statement of Cash Flow | | | | | | |
| | | | | | | |
| 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 |
| | | | | | | |
| Selected Financial Data - Balance Sheet | | | | | | |
| | | | | | | |
| 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 | 1,008 | 918 |
| Acquisition and integration expense | 197 | 199 | 316 | 294 |
| Acquisition related amortization expense | 455 | 309 | 929 | 600 |
| Other (income) expense | (90 ) | 41 | (118 ) | (37 ) |
| Tax benefit on restricted stock | 103 | 189 | 672 | 1,444 |
| Adjustment to U.S. Federal Income Tax rate to 21% | - | (3,792 ) | | (6,514 ) |
| Non-GAAP: Provision for income taxes | 8,079 | 8,895 | 14,991 | 15,526 |
| | | | | |
| Non-GAAP: Net earnings | $ 20,779 | $ 23,481 | $38,211 | $40,315 |
| | | | | |
| GAAP: Net earnings per common share - diluted | $ 1.33 | $ 1.23 | $2.45 | $2.19 |
| Non-GAAP: Net earnings per common share - diluted | $ 1.53 | $ 1.68 | $2.81 | $2.88 |

(2) We define adjusted EBITDA as net earnings calculated in accordance with GAAP, adjusted for the following: interest expense, depreciation and amortization, share based compensation, acquisition and integration expenses, provision for income taxes, and other income (expense). Segment adjusted EBITDA is defined as operating income calculated in accordance with GAAP, adjusted for interest expense, share based compensation, acquisition and integration expenses, and depreciation and amortization. We consider the interest on notes payable from our financing segment and depreciation expense presented within cost of sales, which includes depreciation on assets financed as operating leases, to be operating expenses. As such, they are not included in the amounts added back to net earnings in the adjusted EBITDA calculation. We provide below a reconciliation of adjusted EBITDA to net earnings, which is the most directly comparable financial measure to this non-GAAP financial measure. Adjusted EBITDA margin is our calculation of adjusted EBITDA divided by net sales.

We use adjusted EBITDA as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income in calculating adjusted EBITDA and adjusted EBITDA margin 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 adjusted EBITDA and adjusted EBITDA margin provide useful information to investors and others to understand and evaluate our operating results. However, our use of adjusted EBITDA and adjusted EBITDA margin 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 adjusted EBITDA and adjusted EBITDA margin or similarly titled measures differently, which may reduce their usefulness as a comparative measure.

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| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| Consolidated | 2018 | 2017 | 2018 | 2017 |
| Net earnings | $ 18,003 | $ 17,221 | $ 33,276 | $ 30,644 |
| Provision for income taxes | 6,889 | 11,466 | 12,184 | 18,821 |
| Share based compensation | 1,868 | 1,673 | 3,561 | 3,180 |
| Acquisition and integration expense | 701 | 689 | 1,117 | 1,019 |
| Depreciation and amortization | 2,741 | 2,129 | 5,531 | 4,192 |
| Other (income) expense | (322 ) | 141 | (419 ) | (130 ) |
| Adjusted EBITDA | $ 29,880 | $ 33,319 | $ 55,250 | $ 57,726 |
| | | | | |
| Technology Segment | | | | |
| Operating income | $ 19,077 | $ 21,218 | $ 34,617 | $ 37,288 |
| Depreciation and amortization | 2,740 | 2,128 | 5,529 | 4,190 |
| Share based compensation | 1,766 | 1,578 | 3,362 | 3,002 |
| Acquisition and integration expense | 701 | 689 | 1,117 | 1,019 |
| Adjusted EBITDA | $ 24,284 | $ 25,613 | $ 44,625 | $ 45,499 |
| | | | | |
| Financing Segment | | | | |
| Operating income | $ 5,493 | $ 7,610 | $ 10,424 | $ 12,047 |
| Depreciation and amortization | 1 | 1 | 2 | 2 |
| Share based compensation | 102 | 95 | 199 | 178 |
| Adjusted EBITDA | $ 5,596 | $ 7,706 | $ 10,625 | $ 12,227 |

(3) We define adjusted gross billings as our technology segment net sales calculated in accordance with US GAAP, adjusted to exclude the costs incurred related to sales of third party maintenance, software assurance and subscription/SaaS licenses, and services. We have provided below a reconciliation of adjusted gross billings to technology segment net sales, which is the most directly comparable financial measure to this non-GAAP financial measure. The presentation of adjusted gross billings has been updated to align with net sales for our technology segment.

We use adjusted gross billings as a supplemental measure of our performance to gain insight into the volume of business generated by our technology segment, and to analyze the changes to our accounts receivable and accounts payable. Our use of adjusted gross billings as an analytical tool has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate adjusted gross billings or a similarly titled measure differently, which may reduce its usefulness as a comparative measure.

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Technology segment net sales | $334,768 | $358,678 | $681,632 | $721,577 |
| Costs incurred related to sales of third party maintenance, software assurance and subscription/Saas licenses, and services | 151,088 | 145,822 | 286,525 | $270,427 |
| Adjusted gross billings | $485,856 | $504,500 | $968,157 | $992,004 |

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Consolidated Results of Operations

During the three months ended September 30, 2018, net sales decreased 7.1%, or $26.3 million, to $345.0 million, compared to $371.4 million for the same period in the prior fiscal year. For the six months ended September 30, 2018, net sales decreased 5.8%, or $43.1 million to $701.6 million, compared to $744.7 million for the same period in the prior fiscal year. For the three months ended September 30, 2018, net sales decreased from reduced demand from customers primarily in the SLED, technology, telecom, media & entertainment industries, and financial services, which was partially offset by increases in demand from the healthcare and other industries. For the six months ended September 30, 2018, net sales decreased due to lower demand from customers primarily in the SLED, technology, and telecom, media & entertainment industries, which was partially offset by increases in demand from the healthcare, financial services, and other industries. Also contributing to the decrease in net sales was a decline in financing revenues for both the three and six months ended September 30, 2018, as compared to the prior year periods.

Adjusted gross billings decreased 3.7%, or $18.6 million, to $485.9 million for the three months ended September 30, 2018 from $504.5 million for the same period in the prior fiscal year. For the six months ended September 30, 2018, adjusted gross billings decreased 2.4%, or $23.8 million to $968.2 million, from $992.0 million for the same period in the prior fiscal year. The reduction in adjusted gross billings is due the decline in demand from the same customer end markets as those previously noted for the decline in net sales.

Consolidated gross profit declined 2.4% to $85.5 million, compared with $87.6 million for the three months ended September 30, 2017. Consolidated gross margins were 24.8% for the three months ended September 30, 2018, which is an increase of 120 basis points compared to 23.6% for the same period in the prior fiscal year. The increase in margins for the three-month period was due to a shift in product mix, as we sold a higher proportion of third party maintenance, software assurance and subscription/SaaS licenses, and services. Also contributing to the gross margin improvement was higher product margins and service revenues. For the six months ended September 30, 2018, consolidated gross profit rose 0.6% to $166.2 million, compared with $165.2 million for the same period in the prior fiscal year. Consolidated gross margins were 23.7% for the six months ended September 30, 2018, an increase of 150 basis points compared to 22.2% for the same period in the prior fiscal year.

Our operating expenses for the three months ended September 30, 2018, increased 3.7% to $60.9 million, as compared to $58.7 million for the prior year period. For the six months ended September 30, 2018, our operating expenses increased 4.6% to $121.2 million, as compared to $115.8 million, in the same prior year period. These increases were due, in part, to a full period of salaries and benefits from the acquisition of IDS on September 15, 2017.

Operating income for the three months ended September 30, 2018, decreased $4.3 million, or 14.8%, to $24.6 million as compared to $28.8 million. For the three months ended September 30, 2018, the operating income margin decreased 70 basis points to 7.1% from 7.8% for the same period in the prior year. Operating income for the six months ended September 30, 2018, decreased $4.3 million, or 8.7%, to $45.0 million, as compared to $49.3 million for the same period in the prior year. For the six months ended September 30, 2018, the operating income margin decreased 20 basis points to 6.4% from 6.6% for the same period in the prior year.

Our effective tax rate for the current quarter was 27.7%, compared to 40.0% in the prior year quarter. Due in part to this lower tax rate, consolidated net earnings for the three months ended September 30, 2018, were $18.0 million, an increase of 4.5%, or $0.8 million, over the prior year’s results. Our effective tax rate for the six months ending September 30, 2018 was 26.8%, compared to 38.0% for the same period in the prior year, during which time the consolidated net earnings were $33.3 million, an increase of 8.6%, or $2.6 million, compared to the prior year’s results.

Adjusted EBITDA decreased $3.4 million, or 10.3%, to $29.9 million, and adjusted EBITDA margin decreased 30 basis points to 8.7% for the three months ended September 30, 2018, as compared to the prior year period of 9.0%. For the six months ended September 30, 2018, adjusted EBITDA decreased $2.5 million, or 4.3%, to $55.3 million

and the adjusted EBITDA margin increased 10 basis points to 7.9% for the six months ended September 30, 2018, compared to the prior year six month period.

Diluted earnings per share increased 8.1%, or $0.10, to $1.33 per share for the three months ended September 30, 2018, as compared to $1.23 per share for the same period in the prior year. Non-GAAP diluted earnings per share decreased 8.8%, or $0.15, to $1.53 for the three months ended September 30, 2018, as compared to $1.68 for the same period in the prior year.

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For the six months ended September 30, 2018, diluted earnings per share increased 11.9%, or $0.26, to $2.45 per share, as compared to $2.19 per share for the same period in the prior year. Non-GAAP diluted earnings per share decreased 2.3% to $2.81 for the six months ended September 30, 2018, as compared to $2.88 for the same period in the prior year.

Cash and cash equivalents decreased $42.6 million, or 36.0%, to $75.6 million at September 30, 2018 as compared to $118.2 million as of March 31, 2018. The decrease is primarily the result of an increase in our working capital required for the growth in our technology segment, and $9.4 million paid for the purchase of 110,537 shares of our common stock during the six months ended September 30, 2018. Our cash on hand, funds generated from operations, amounts available under our credit facility, and the possible monetization of our investment portfolio provide sufficient liquidity for our business.

Segment Overview

Our operations are conducted through two segments: technology and financing.

Technology Segment

The technology segment sells IT equipment and software and related services primarily to corporate customers, state and local governments, and higher education institutions on a nationwide and international basis, with geographic concentrations relating to our physical locations. The technology segment also provides Internet-based business-to-business supply chain management solutions for IT products.

Our technology segment derives revenue from the sales of new equipment and service engagements. Included in net sales are revenues derived from performing advanced IT professional and managed services that may be sold together with and integral to third-party products and software. Our service engagements are generally governed by statements of work, and are primarily fixed price (with allowance for changes); however, some service agreements are based on time and materials.

Customers who purchase IT equipment and services from us may have customer master agreements, or CMAs, with our company, which stipulate the terms and conditions of the relationship. Some CMAs contain pricing arrangements, and most contain mutual voluntary termination clauses. Our other customers place orders using purchase orders without a CMA in place, or with other documentation customary for the business. Often, our work with state and local governments is based on public bids and our written bid responses.

We endeavor to minimize our cost of sales through incentive programs provided by vendors and distributors. The programs for which we qualify are generally set by our reseller authorization level with the vendor. The authorization level we achieve and maintain governs the types of products 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 purchase volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorization levels are costly to maintain and these programs continually change and, therefore, there is no guarantee of future reductions of costs provided by these vendor consideration programs.

Financing Segment

Our financing segment offers financing solutions to corporations, governmental entities, and educational institutions nationwide, as well as internationally in the UK, Canada, Iceland, and Spain. The financing segment derives revenue from leasing IT and medical equipment and the disposition of that equipment at the end of the lease. The financing segment also derives revenues from the financing of third-party software licenses, software assurance, maintenance and other services.

Financing revenue generally falls into the following three categories:

- Portfolio income: Interest income from financing receivables and rents due under operating leases;
- Transactional gains: Net gains or losses on the sale of financial assets;
- Post-contract earnings: Month-to-month rents; early termination, prepayment, make-whole, or buyout fees; and net gains on the sale of off-lease (used) equipment.

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We also recognize revenue from events that occur after the initial sale of a financial asset and remarketing fees from certain residual value investments.

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, changes in vendor incentive programs, interest rate fluctuations, general economic conditions, 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 a sale prior to the expiration of the lease term to the lessee or to a third-party or from post-term events.

We expect to continue to expand by opening new sales locations and hiring additional staff for specific targeted market areas in the near future whenever we can find both experienced personnel and desirable geographic areas. These investments may reduce our results from operations in the short term.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with US GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that alternative accounting policies would have been applied, resulting in a change in financial results. On an ongoing basis, we reevaluate our estimates, including those related to revenue recognition, residual values, vendor incentives, lease classification, goodwill and intangibles, and reserves for credit losses and income taxes specifically relating to uncertain tax positions. We base estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For all such estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates may require adjustment.

Our critical accounting estimates have not changed from those reported in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2018 Annual Report.

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SEGMENT RESULTS OF OPERATIONS

The three and six months ended September 30, 2018, compared to the three and six months ended September 30, 2017

Technology Segment

The results of operations for our technology segment were as follows (dollars in thousands):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | $ 334,768 | $ 358,678 | $ 681,632 | $ 721,577 |
| Cost of sales | 257,813 | 281,829 | 531,894 | 575,095 |
| Gross profit | 76,955 | 76,849 | 149,738 | 146,482 |
| Selling, general, and administrative | 55,138 | 53,503 | 109,592 | 105,004 |
| Depreciation and amortization | 2,740 | 2,128 | 5,529 | 4,190 |
| Operating expenses | 57,878 | 55,631 | 115,121 | 109,194 |
| Operating income | $ 19,077 | $ 21,218 | $ 34,617 | $ 37,288 |
| Adjusted gross billings | $ 485,856 | $ 504,500 | $ 968,157 | $ 992,004 |
| Adjusted EBITDA | $ 24,284 | $ 25,613 | $ 44,625 | $ 45,499 |

Net sales: Net sales for the three months ended September 30, 2018, were $334.8 million compared to $358.7 million during the three months ended September 30, 2017, a decrease of 6.7%, or $23.9 million. For the six months ended September 30, 2018, net sales were $681.6 million compared to $721.6 million during the same period in the prior year, a decrease of 5.5%, or $39.9 million. The decrease in net sales was due, in part, to a decrease in demand for products and services from customers in the SLED telecom, media & entertainment, and technology customer end markets, partially offset by increased demand by the healthcare, financial services, and other industries during the six months ended September 30, 2018, compared to the prior year. A shift in product mix also contributed to the decrease in net sales for both the three and six months ended September 30, 2018, as we sold a higher proportion of third party software assurance, maintenance and services, which are recognized on a net basis.

Adjusted gross billings for the three months ended September 30, 2018, were $485.9 million compared to $504.5 million during the three months ended September 30, 2017, a decrease of 3.7%, or $18.6 million. For the six months ended September 30, 2018, adjusted gross billings were $968.2 million compared to $992.0 million during the same period in the prior year, a decrease of 2.4%, or $23.8 million. The decrease in adjusted gross billings during the six month period was due, in part, to a decrease in demand for products and services from customers in the telecom, media and entertainment, SLED, and technology industries. Partially offsetting lower demand from these industries was an increase in demand from the healthcare, financial services, and other industries during the six months ended September 30, 2018, compared to the prior year.

We rely on our vendors to fulfill a large majority of shipments to our customers. As of September 30, 2018, we had open orders of $150.3 million and deferred revenue of $48.5 million. As of September 30, 2017, we had open orders of $152.7 million and deferred revenues of $52.8 million.

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We analyze net sales by customer end market and by vendor, as opposed to discrete product and service categories. The percentage of net sales by industry and vendor are summarized below:

| | Twelve Months Ended September 30, | | |
|---|---|---|---|
| | 2018 | 2017 | Change |
| Revenue by customer end market: | | | |
| Technology | 23 % | 24 % | (1 %) |
| Telecom, Media & Entertainment | 13 % | 15 % | (2 %) |
| Financial Services | 15 % | 14 % | 1 % |
| SLED | 17 % | 18 % | (1 %) |
| Healthcare | 15 % | 12 % | 3 % |
| All others | 17 % | 17 % | 0 % |
| Total | 100 % | 100 % | |
| | | | |
| Revenue by vendor: | | | |
| Cisco Systems | 40 % | 45 % | (5 %) |
| NetApp | 4 % | 5 % | (1 %) |
| HP Inc. & HPE | 5 % | 7 % | (2 %) |
| Dell / EMC | 4 % | 4 % | 0 % |
| Juniper Networks | 3 % | 5 % | (2 %) |
| Arista Networks | 4 % | 3 % | 1 % |
| All others | 40 % | 31 % | 9 % |
| Total | 100 % | 100 % | |

Our revenues by customer end market have remained consistent over the year with over 80% of our revenues generated from customers within the five end markets identified above. During the trailing twelve-month period ended September 30, 2018, we had an increase in the percentage total revenues from customers in the healthcare and financial services industries, which were roughly offset by decreases in the percentage of total revenues from SLED, technology, and telecom, media & entertainment end markets over the prior year period. These changes were driven by changes in customer buying cycles and specific IT related initiatives, rather than the acquisition or loss of a customer or set of customers.

The majority of our revenues by vendor are derived from Cisco Systems, a combined HP Inc. and HPE, and NetApp, which in total, declined to 49% for the trailing twelve-month period ended September 30, 2018 from approximately 57% in the trailing twelve-month period ended September 30, 2017, with the greatest decline in the proportional percentage of total revenues in Cisco product sales. The decrease in the percentage of revenues from the top three vendors is due to substantial competition and rapid developments in the IT industry. None of the vendors included within the “other” category exceeded 3% of total revenues.

Cost of sales: Cost of sales decreased 8.5% and 7.5% for the three and six months ended September 30, 2018, due to the decrease in net sales, combined with a shift in product mix, as we sold a higher proportion of third party software assurance, maintenance and services, which are recognized on a net basis. Our gross margin increased 160 basis points to 23.0% for the three months ended September 30, 2018, compared to 21.4% in the same period in the prior year due to a shift in product mix, as we sold a higher proportion of third party software assurance, maintenance and services for which the revenues are presented on a net basis, as well as lower product margins in the prior year quarter from a large competitively bid project that partially shipped during the period. For the six months ended September 30, 2018, our gross margin increased 170 basis points to 22.0%, compared to 20.3% the prior year period.

Vendor incentives earned as a percentage of sales decreased 30 basis points for the three months ended September 30, 2018, compared to same period in the prior year, but remained unchanged as a percentage of sales for the six months

ended September 30, 2018, compared to same period in the prior year. There are ongoing changes to the incentive programs offered to us by our vendors. Accordingly, if we are unable to maintain the level of vendor incentives we are currently receiving, gross margins may decrease.

Selling, general, and administrative: Selling, general, and administrative expenses of $55.1 million for the three months ended September 30, 2018, increased $1.6 million, or 3.1%, from $53.5 million the prior year. Salaries and benefits increased $1.6 million, or 3.7%, to $44.6 million, compared to $43.0 million during the prior year, primarily due to higher salaries and healthcare expenses. The increase in salaries was due, in part, to a full quarter including IDS operations, as we completed this acquisition on September 15, 2017. Our technology segment had 1,213 employees as of September 30, 2018, a decrease of 20, or 1.6%, from 1,233 employees at September 30, 2017. General and administrative expenses increased $0.3 million, or 3.0%, to $9.0 million during the three months ended September 30, 2018, compared to $8.7 million the prior year, due to adjustments to the fair value of contingent consideration of $0.7 million this year, up from $0.4 million last year.

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Selling, general, and administrative expenses of $109.6 million for the six months ended September 30, 2018, increased $4.6 million, or 4.4%, from $105.0 million the prior year. Salaries and benefits increased $3.8 million, or 4.4%, to $89.9 million, compared to $86.1 million during the prior year due to increased costs of personnel as well as higher variable compensation as a result of the increase in gross profit. The increase in salaries was due, in part, to a full six months including IDS operations, as we completed this acquisition on September 15, 2017. General and administrative expenses increased $1.0 million, or 6.5%, to $16.3 million during the six months ended September 30, 2018, compared to $15.3 million the prior year, due adjustments to the fair value of contingent consideration of $1.1 million this year, up from $0.4 million last year.

Depreciation and amortization: Depreciation and amortization increased $0.6 million, or 28.8%, to $2.7 million during the three months ended September 30, 2018, compared to $2.1 million in the prior year, due to the IDS acquisition in September 2017. For the six months ended September 30, 2018, depreciation and amortization increased $1.3 million, or 32.0%, to $5.5 million, compared to the same period in the prior year.

Segment operating income: As a result of the foregoing, operating income was $19.1 million, a decrease of $2.1 million, or 10.1%, for the three months ended September 30, 2018, compared to $21.2 million in the prior year period. For the three months ended September 30, 2018, adjusted EBITDA was $24.3 million, a decrease of $1.3 million, or 5.2%, compared to $25.6 million in the prior year period. For the six months ended September 30, 2018, operating income was $34.6 million, a decrease of $2.7 million, or 7.2%, compared to $37.3 million in the prior year period. Adjusted EBITDA was $44.6 million, a decrease of $0.9 million, or 1.9%, for the six months ended September 30, 2018, compared to $45.5 million in the prior year period.

Financing Segment

The results of operations for our financing segment were as follows (dollars in thousands):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | $ 10,275 | $ 12,685 | $ 19,943 | $ 23,142 |
| Cost of sales | 1,730 | 1,963 | 3,478 | 4,460 |
| Gross profit | 8,545 | 10,722 | 16,465 | 18,682 |
| | | | | |
| Selling, general, and administrative | 2,567 | 2,837 | 5,079 | 6,000 |
| Depreciation and amortization | 1 | 1 | 2 | 2 |
| Interest and financing costs | 484 | 274 | 960 | 633 |
| Operating expenses | 3,052 | 3,112 | 6,041 | 6,635 |
| Operating income | $ 5,493 | $ 7,610 | $ 10,424 | $ 12,047 |
| Adjusted EBITDA | $ 5,596 | $ 7,706 | $ 10,625 | $ 12,227 |

Net sales: Net sales decreased by $2.4 million, or 19.0%, to $10.3 million for the three months ended September 30, 2018, as compared to prior year results due to lower post contract earnings, and other financing revenues. Post contract earnings decreased $3.0 million due to the early termination of several large leases in the prior year. Offsetting this decrease was higher portfolio earnings. During the three months ended September 30, 2018 and 2017, we recognized transactional gains of $1.2 million, and total proceeds from these sales were $47.2 million and $48.3 million, respectively.

For the six months ended September 30, 2018, net sales decreased by $3.2 million, or 13.8%, to $19.9 million as compared to prior year results due to lower post contract earnings, transactional gains, and other financing revenues, which partially were offset by higher portfolio earnings. Post contract earnings decreased $3.6 million due to the early termination of several large leases in the prior year. 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.

At September 30, 2018, we had $165.4 million in financing receivables and operating leases, compared to $131.8 million as of September 30, 2017, an increase of $33.6 million, or 25.5%.

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Cost of sales: Cost of sales decreased $0.2 million and $1.0 million for the three and six months ended September 30, 2018, compared to the same periods in the prior year, respectively, which consists of depreciation expense from operating leases and the cost of off-lease equipment sold. Gross profit decreased by 20.3% to $8.5 million, for the three months ended September 30, 2018, compared to the prior year, and decreased by 11.9% to $16.5 million, for the six months ended September 30, 2018, compared to the prior year.

Selling, general, and administrative: For the three months ended September 30, 2018, selling, general, and administrative expenses decreased $0.3 million, or 9.5%, due to a decrease in variable compensation as a result of the decrease in gross profit. Our financing segment had 42 employees as of September 30, 2018, compared to 49 employees as of September 30, 2017. Selling, general, and administrative expenses decreased by $0.9 million, or 15.4%, for the six months ended September 30, 2018, due to a decrease in variable compensation as a result of the decrease in gross profit, as well as the change in reserves for credit losses.

Interest and financing costs increased by 76.6% to $0.5 million, due to an increase in the average total notes payable outstanding and by higher average interest rates over the three months ended September 30, 2018, compared to the same period in the prior year. For the six months ended September 30, 2018, interest and financing costs increased by 51.7% to $1.0 million compared to the same period in the prior year. Total notes payable were $65.3 million as of September 30, 2018, an increase of $28.2 million or 75.9% compared to $37.1 million as of September 30, 2017. Our weighted average interest rate for non-recourse notes payable was 4.31% and 3.62%, as of September 30, 2018 and 2017, respectively.

Segment operating income: As a result of the foregoing, operating income and adjusted EBITDA decreased $2.1 million, or 27.8% and 27.4%, respectively, for the three months ended September 30, 2018, over the prior year period. For the six months ended September 30, 2018, operating income and adjusted EBITDA decreased $1.6 million or 13.5% and 13.1%, respectively.

Consolidated

Other income: Other income was $0.3 million for the three months ended September 30, 2018, compared to other expense of $0.1 million the prior year period. For the six months ended September 30, 2018 and 2017, other income was $0.4 million and $0.1 million, respectively.

Income taxes: Our provision for income tax expense was $6.9 million and $12.2 million for the three and six months ended September 30, 2018, as compared to $11.5 million and $18.8 million for the same periods in the prior year. Our effective income tax rate for the three and six months ended September 30, 2018, was 27.7% and 26.8%, compared to 40.0% and 38.0% for the three and six months ended September 30, 2017. The reduction in our effective income tax rate was primarily due to the reduction of the U.S. corporate income tax rate from 35% to 21% as a result of the 2017 Tax Cut and Jobs Act.

Net earnings: The foregoing resulted in net earnings of $18.0 million an increase of $0.8 million, or 4.5%, for the three months ended September 30, 2018, as compared to $17.2 million compared to the prior year. For the six months ended September 30, 2018, net earnings were $33.3 million, an increase of $2.6 million, or 8.6%, over the same period in the prior year.

Both basic and fully diluted earnings per common share were $1.33 for the three months ended September 30, 2018, an increase of 7.3% and 8.1%, as compared to $1.24 and $1.23, respectively, for the three months ended September 30, 2017. For the six months ended September 30, 2018, basic and fully diluted earnings per common share were $2.47 and $2.42, an increase of 11.8% and 11.9%, as compared to $2.21 and $2.19 for the same period in the prior year, respectively.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for both the three and six months ended September 30, 2018, was 13.5 million and 13.6 million, respectively. Weighted average common shares outstanding used in the calculation of the basic and diluted earnings per common share for the three months ended September 30, 2017, was 13.9 million and 14.0 million, respectively. Weighted average common shares outstanding used in the calculation of the basic and diluted earnings per common share for the six months ended September 30, 2017, was 13.8 million and 14.0 million, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

Our primary sources of liquidity have historically been cash and cash equivalents, internally generated funds from operations, and borrowings, both non-recourse and recourse. We have used those funds to meet our capital requirements, which have historically consisted primarily of working capital for operational needs, capital expenditures, purchases of equipment for lease, payments of principal and interest on indebtedness outstanding, acquisitions, and the repurchase of shares of our common stock.

Our subsidiary ePlus Technology, inc., part of our technology segment, finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or ("WFCDF"). ePlus Technology, inc.'s agreement with WFCDF had an aggregate credit limit of $325 million as of September 30, 2018.

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, 2017. 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.

There are two components of this facility: (1) a floor plan component, and (2) an accounts receivable component. After a customer places a purchase order with us and we have completed our credit review, we place an order for the equipment with one of our vendors. Generally, most purchase orders from us to our vendors are first financed under the floor plan component and reflected in "accounts payable—floor plan" in our consolidated balance sheets. Payments on the floor plan component are due on three specified dates each month, generally 30-60 days from the invoice date. 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 available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no outstanding balance at September 30, 2018, or September 30, 2017, while the maximum credit limit was $30.0 million for both periods. The borrowings and repayments under the floor plan component are reflected as "net borrowings on floor plan facility" in the cash flows from financing activities section of our consolidated statements of cash flows.

Most customer payments in our technology segment are remitted to our lockboxes. Once payments are cleared, the monies in the lockbox accounts are automatically transferred to our operating account on a daily basis. On the due dates of the floor plan component, we make cash payments to WFCDF. These payments from the accounts receivable component to the floor plan component and repayments from our cash are reflected as "net borrowings on floor plan facility" in the cash flows from financing activities section of our consolidated statements of cash flows. We engage in this payment structure to minimize our interest expense and bank fees in connection with financing the operations of our technology segment.

We believe that cash on hand and funds generated from operations, together with available credit under our credit facility, will be sufficient to finance our working capital, capital expenditures, and other requirements for at least the next twelve calendar months.

Our ability to continue to fund our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing as may be required. While at this time we do not anticipate requiring any additional sources

of financing to fund operations, if demand for IT products declines, or if our supply of products is delayed or interrupted, our cash flows from operations may be substantially affected.



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Cash Flows

The following table summarizes our sources and uses of cash over the periods indicated (in thousands):

| | Six Months Ended September 30, | |
|---|---|---|
| | 2018 | 2018 |
| Net cash provided by (used) in operating activities | $ (17,085) | $ 13,330 |
| Net cash used in investing activities | (37,937) | (52,891) |
| 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 flows from operating activities. Cash used in operating activities totaled $17.1 million during the six months ended September 30, 2018. Net earnings adjusted for the impact of non-cash items was $42.3 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of $59.4 million, primarily due to net additions to accounts receivables of $29.3 million, salaries and commissions payable, deferred revenues and other liabilities of $14.8 million, inventories of $16.7 million, and financing receivables of $5.9 million, partially offset by reductions in accounts payable of $2.4 million, and deferred costs, other intangible assets and other assets of $4.9 million..

Cash provided by operating activities totaled $13.3 million during the six months ended September 30, 2017. Net earnings adjusted for the impact of non-cash items was $30.7 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of $17.4 million, primarily due to net additions to accounts receivables of $21.7 million, salaries and commissions payable and deferred revenues and other liabilities of $26.3 million, deferred costs, other intangible assets and other assets of $8.3 million, and accounts payable of $6.9 million, partially offset by reductions in inventories of $43.0 million and financing receivables of $2.7 million.

To manage our working capital, we monitor our cash conversion cycle for our Technology segment, which is defined as days sales outstanding ("DSO") in accounts receivable plus days of supply in inventory ("DIO") minus days of purchases outstanding in accounts payable ("DPO"). The following table presents the components of the cash conversion cycle for our Technology segment:

| | As of September 30, | |
|---|---|---|
| | 2018 | 2017 |
| (DSO) Days sales outstanding (1) | 60 | 52 |
| (DIO) Days inventory outstanding (2) | 11 | 15 |
| (DPO) Days payable outstanding (3) | (46) | (44) |
| Cash conversion cycle | 25 | 23 |

(1) Represents the rolling three-month average of the balance of trade accounts receivable-trade, net for our technology segment at the end of the period divided by adjusted gross billings for the same three-month period.

(2) Represents the rolling three-month average of the balance of inventory, net for our technology segment at the end of the period divided by cost of adjusted gross billings for the same three-month period.

(3) Represents the rolling three-month average of the combined balance of accounts payable-trade and accounts payable-floor plan for our technology segment at the end of the period divided by Cost of adjusted gross billings for the same three-month period.

Our cash conversion cycle increased to 25 days at September 30, 2018, compared to 23 days at September 30, 2017, primarily driven by an increase in DSO of 8 days due to the timing of collections. The increase in our cash conversion

cycle was partially offset by a decrease in DIO as of September 30, 2018, as a result of a decrease in average inventory balances of 31.2%, or $22.5 million.

Cash flows related to investing activities. Cash used in investing activities was $37.9 million during the six months ended September 30, 2018. Cash used in investing activities during the six months ended September 30, 2018, was primarily driven by issuance of financing receivables of $88.4 million, purchases of assets to be leased or financed of $8.6 million, and purchases of property, equipment, and operating lease equipment of $6.5 million , which was partially offset by cash proceeds from the repayment financing receivable of $33.3 million, and the sale of financing receivables of $30.5 million, and sale of property, equipment, and leased equipment of $1.8 million.

Cash used in investing activities was $52.9 million during the six months ended September 30, 2017. Cash used in investing activities during the six months ended September 30, 2017, was primarily driven by acquisitions of $37.7 million, net issuance and repayment of financing receivables of $59.7 million, purchases of assets to be leased or financed of $3.8 million, and purchases of property, equipment, software, and operating lease equipment of $3.4 million, which was partially offset by the sale of financing receivables of $43.8 million, and proceeds from sale of property, equipment, and operating leases of $8.0 million

Cash flows from financing activities. Cash provided by financing activities was $12.3 million during the six months ended September 30, 2018, which was primarily due to net borrowings of non-recourse and recourse notes payable of $15.9 million, and net borrowing on floor plan facility of $8.7 million, partially offset by cash used for the repurchase of common stock of $10.1 million, and repayment of financing of acquisitions of $2.1 million. Cash used in financing activities was $10.0 million during the six months ended September 30, 2017, which was primarily due to net borrowing on floor plan facility of $12.4 million, cash used for the repurchase of common stock of $4.4 million, and repayment of financing of acquisitions of $1.1 million, partially offset by net borrowings of non-recourse and recourse notes payable of $7.8 million.

Non-Cash Activities

We assign contractual payments due under lease and financing agreements to third-party financial institutions, which are accounted for as non-recourse notes payable. As a condition to the assignment agreement, certain financial institutions may request that the customer remit their contractual payments to a trust, rather than to us, and the trust pays the financial institution. Alternatively, if the structure of the agreement does not require a trust, the customer will continue to make payments to us, and we will remit the payment to the financial institution. The economic impact to us under either assignment structure is similar, in that the assigned contractual payments are paid by the customer and remitted to the lender to pay down the corresponding non-recourse notes payable. However, these assignment structures are classified differently within our consolidated statements of cash flows. More specifically, we are required to exclude non-cash transactions from our consolidated statement of cash flows, so certain contractual payments made by the customer to the trust are excluded from our operating cash receipts and the corresponding repayment of the non-recourse notes payable from the trust to the third-party financial institution are excluded from our cash flows from financing activities. Contractual payments received by the trust and paid to the lender on our behalf are disclosed as a non-cash financing activity.

Liquidity and Capital Resources

We may use non-recourse notes payable to finance approximately 80% to 100% of the purchase price of the assets being leased or financed by our customers. Any balance of the purchase price remaining after non-recourse funding and any upfront payments received from the customer (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 financing arrangements and our residual return history will continue to allow us to obtain such financing, such financing may not be available on acceptable terms, or at all.

The financing necessary to support our lease and financing activities has been provided by our cash and non-recourse borrowings. We monitor our exposure closely. We are able to obtain financing through our traditional lending sources using primarily non-recourse borrowings from third party banks and finance companies. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed payments at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid, the lien is released and all further proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk, and

the lender's only recourse, upon default, is against the customer and the specific equipment.

At September 30, 2018, our non-recourse notes payable increased 28.2% to $65.3 million, as compared to $50.9 million at March 31, 2018. There was no recourse notes payable as of September 30, 2018, compared to $1.3 million as of March 31, 2018.

Whenever desirable, we arrange for equity investment financing, which includes selling lease payments, 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 reserve the right to share in remarketing proceeds of the equipment on a subordinated basis after the investor has received an agreed-to return on its investment.

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Credit Facility — Technology

Our subsidiary, ePlus Technology, inc., has a financing facility from WFCDF 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. This 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. As of September 30, 2018, the facility had an aggregate limit of the two components of $325.0 million with an accounts receivable sub-limit of $30.0 million.

On July 27, 2017, we executed an amendment to the WFCDF credit facility that temporarily increased the aggregate limit of the two components from $250.0 million to $325.0 million from the date of the agreement through October 31, 2017, and 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.

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. We were in compliance with these covenants as of September 30, 2018. Interest on the facility is assessed at a rate of the One Month LIBOR plus two and one half percent if the payments are not made on the three specified dates each month. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of 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 credit facility requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by a certain date. 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.

Floor Plan Component

Purchases by ePlus Technology, inc. including computer technology products, software, maintenance and services are in part financed through a floor plan component in which interest expense for the first thirty to sixty 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 fifteen to sixty-day time frame and represent assigned accounts payable originally generated with the manufacturer/distributor. In some cases, we are able to pay invoices early and receive a discount, but if the fifteen to sixty-day obligation is not paid timely, interest is then assessed at stated contractual rates.

The respective floor plan component credit limits and actual outstanding balance payables for the dates indicated were as follows (in thousands):

| Maximum Credit Limit | Balance as of | Maximum Credit Limit | Balance as of |
|---|---|---|---|

| at September 30, 2018 | September 30, 2018 | at March 31, 2018 | March 31, 2018 |
|---|---|---|---|
| $ 325,000 | $ 120,771 | $ 250,000 | $ 112,109 |

Accounts Receivable Component

ePlus Technology, inc. has an accounts receivable component included within the WFCDF credit facility, 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 available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no balance outstanding for the accounts receivable component at September 30, 2018, or March 31, 2018, while the maximum credit limit was $30.0 million for both periods.

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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.

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 as defined in Item 303(a)(4)(ii) of Regulation S-K, or other contractually narrow or limited purposes. As of September 30, 2018, we were 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 and/or engineering forces. We may also open offices in new geographic areas, which may require a significant investment of cash. We may also acquire technology companies to expand and enhance the platform of bundled solutions to provide additional functionality and value-added services. We may continue to use our internally generated funds to finance investments in leased assets or investments in notes receivables due from our customers. These actions may result in increased working capital needs as the business expands. As a result, we may require additional financing to fund our strategy, implementation, potential future acquisitions, and working capital needs, which may include additional debt and equity financing.

Inflation

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.

Potential Fluctuations in Quarterly Operating Results

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

Our quarterly results of operations are susceptible to fluctuations for a number of reasons, including, but not limited to currency fluctuations, reduction in IT spending, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, the reduction of manufacturer incentive programs, and other factors. Quarterly operating results could also fluctuate as a result of our sale of equipment in our lease portfolio to a lessee or third party at the expiration of a lease term or prior to such expiration, and the transfer of financial assets. Sales of equipment and transfers of financial assets may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. See Part I, Item 1A, “Risk Factors,” in our 2018 Annual Report, and subsequent Forms 10-Q for our fiscal year

2019.

We believe that comparisons of quarterly results of our operations are not necessarily meaningful, and that results for one quarter should not be relied upon as an indication of future performance.

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## Item 3. Quantitative and Qualitative Disclosures About Market Risk

A substantial portion of our liabilities are non-recourse, fixed-interest-rate instruments, which were aligned with the customer financing rate creating an interest rate spread which is our profit. Should we not fund these transactions with debt at inception and interest rates rise above our interest rate with our customer, we may not be able to fund the transaction without reduced profit or a loss, thus inhibiting our ability to generate proceeds from the transaction. We use our lines of credit and other financing facilities which are subject to fluctuations in short-term interest rates. These instruments, which are generally denominated in US dollars, were entered into for other than trading purposes and, with the exception of amounts drawn under the WFCDF facility, 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 WFCDF facility bear interest at a market-based variable rate. As of September 30, 2018, the aggregate fair value of our recourse and non-recourse borrowings approximated their carrying value.

We have transactions in foreign currencies, primarily in British Pounds, Euros, and Indian Rupees. There is a potential for exposure to fluctuations in foreign currency rates resulting primarily from the translation exposure associated with the preparation of our consolidated financial statements. In addition, we have foreign currency exposure when transactions are not denominated in our subsidiary’s functional currency. To date, our foreign operations are insignificant in relation to total consolidated operations, and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.

The U.K. referendum (“Brexit”) to leave the European Union could impact revenue items, cost items, tax, immigration, trade, goodwill impairments and liquidity, among others. The most obvious immediate impact is the effect of foreign exchange fluctuations on revenue and cost items. We evaluate Brexit-related developments on a regular basis to determine if such developments are anticipated to have a material impact on the Company’s results on operations and financial position.

We have determined that our foreign currency exposure for our United Kingdom operations is insignificant in relation to total consolidated operations and we believe those potential fluctuations in currency exchange rates and other Brexit-related economic and operational risks will not have a material effect on our results of operations and financial position.

We have assets in the UK, Canada, Iceland, and Spain. As a lessor, we have entered into lease contracts and non-recourse, fixed-interest-rate financing denominated in British pounds, Canadian dollars, Icelandic krona, and Euros. To date, our foreign operations have been insignificant in relation to total consolidated operations, and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.

## Item 4. 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, or “disclosure controls,” as defined in the Exchange Act Rule 13a-15(e). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized, and reported within the periods specified in the SEC’s rules and forms. Disclosure controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2018.

Changes in Internal Control Over Financial Reporting.

There have not been any changes in our internal control over financial reporting during the quarter ended September 30, 2018, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system cannot provide absolute assurance due to its inherent limitations; it is a process that involves human diligence and compliance, and is subject to lapses in judgment and breakdowns resulting from human failures. A control system also can be circumvented by collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process; therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings that arise in the ordinary course of business. Legal proceedings that may arise in the ordinary course of business include preference payment claims asserted in customer bankruptcy proceedings; tax audits; claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights; claims of alleged non-compliance with contract provisions; employment-related claims; claims by competitors, vendors or customers; claims related to alleged violations of laws and regulations; and claims relating to alleged security or privacy breaches. We attempt to ameliorate the effect of potential litigation through insurance coverage and contractual protections, such as rights to indemnifications and limitations of liability.

Additionally, we may from time to time receive payouts resulting from claims we submit in legal proceedings, such as when a customer or vendor has filed bankruptcy, or in class action lawsuits.

We provide for costs relating to contingencies when a loss is probable and the amount is reasonably determinable. 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 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.

### Item 1A. Risk Factors

There has not been any material change in the risk factors previously disclosed in Part I, Item 1A of our 2018 Annual Report and Item 1A. “Risk Factors” in our Form 10-Q for the three months ended June 30, 2018.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding our purchases of ePlus inc. common stock during the six months ended September 30, 2018.

| 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 (or approximate dollar value) of shares that may yet be purchased under the plans or programs | |
|---|---|---|---|---|---|
| April 1, 2018 through April 30, 2018 | 69,645 | $ 78.14 | 69,645 | 20,516 | (2 ) |
| May 1, 2018 through May 27, 2018 | 800 | $ 79.93 | 800 | 19,716 | (3 ) |
| May 28, 2018 through May 31, 2018 | - | $ - | - | 519,716 | (4 ) |
| June 1, 2018 through June 30, 2018 | 37,086 | $ 95.80 | - | 519,716 | (5 ) |
| July 1, 2018 through July 31, 2018 | 3,006 | $ 102 | - | 519,716 | (6 ) |
| August 1, 2018 through August 18, 2018 | - | $ - | - | 519,716 | (7 ) |
| August 19, 2018 through August 31, 2018 | - | $ - | - | 500,000 | (8 ) |
| September 1, 2018 through September 30, 2018 | - | $ - | - | 500,000 | (9 ) |

(1) Any shares acquired were in open-market purchases, except for 37,086 shares repurchased in June and 3,006 repurchased in July 2018 to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.

(2) The share purchase authorization in place for the month ended April 30, 2018 had purchase limitations on the number of shares of up to 500,000 shares. As of April 30, 2018, the remaining authorized shares to be purchased were 20,516.

(3) The share purchase authorization in place for the month ended May 31, 2018 had purchase limitations on the number of shares of up to 500,000 shares. As of May 31, 2018, the remaining authorized shares to be purchased were 19,716.

(4) On April 26, 2018, the board of directors authorized the company to repurchase up to 500,000 shares of our outstanding common stock commencing on May 28, 2018 and continuing to May 27, 2019. As of May 31, 2018, the remaining authorized shares to be purchased were 519,716 under both authorizations.

(5) The share purchase authorizations in place for the month ended June 30, 2018 had purchase limitations on the number of shares of up to 519,716 shares. As of June 30, 2018, the remaining authorized shares to be purchased were 519,716.

(6) The share purchase authorizations in place for the month ended July 31, 2018 had purchase limitations on the number of shares of up to 519,716 shares. As of July 31, 2018, the remaining authorized shares to be purchased were 519,716.

(7) The share purchase authorization in place for outstanding common stock over a 12-month period expired on August 18, 2018, which had a remaining unused authorization for the repurchase of 19,716 shares. As of August 18, 2018, the remaining authorized shares to be purchased were 519,716.

(8) The share purchase authorization in place for the month ended August 31, 2018 had purchase limitations on the number of shares of up to 500,000 shares. As of August 31, 2018, the remaining authorized shares to be purchased were 500,000.

(9) The share purchase authorization in place for the month ended September 30, 2018 had purchase limitations on the number of shares of up to 500,000 shares. As of September 30, 2018, the remaining authorized shares to be purchased were 500,000.

The timing and expiration date of the current stock repurchase authorizations are included in Note 11, "Stockholders' Equity" to our unaudited condensed consolidated financial statements included elsewhere in this report.

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Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

| | |
|---|---|
| 3.1 | ePlus inc. Amended and Restated Certificate of Incorporation, filed on September 19, 2008 (Incorporated herein by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2008) |
| 3.2 | Amended and Restated Bylaws of ePlus inc., as amended February 15, 2018 (Incorporated herein by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on February 20, 2018) |
| 31.1 | Certification of the Chief Executive Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a). |
| 31.2 | Certification of the Chief Financial Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a). |
| 32 | Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. § 1350. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | ePlus inc. |
| Date: November 7, 2018 | /s/ MARK P. MARRON<br>By: Mark P. Marron,<br>Chief Executive Officer and President<br>(Principal Executive Officer) |
| Date: November 7, 2018 | /s/ ELAINE D. MARION<br>By: Elaine D. Marion<br>Chief Financial Officer<br>(Principal Financial Officer) |