EPLUS INC
Form 10-Q
August 10, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

o 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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer £	Accelerated filer £
Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company T

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

The number of shares of common stock outstanding as of July 31, 2009 was 8,224,315.

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ePlus inc. AND SUBSIDIARIES

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

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

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	As of June 30, 2009		As of March 31, 2009	
ASSETS	(in thousands)			
Cash and cash equivalents	$	103,323	$	107,788
Accounts receivable—net		85,253		82,734
Notes receivable		4,013		2,632
Inventories—net		13,801		9,739
Investment in leases and leased equipment—net		123,260		119,256
Property and equipment—net		3,014		3,313
Other assets		15,696		16,809
Goodwill		21,601		21,601
TOTAL ASSETS	$	369,961	$	363,872
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Accounts payable—equipment	$	6,940	$	2,904
Accounts payable—trade		19,262		18,833
Accounts payable—floor plan		57,182		45,127
Accrued expenses and other liabilities		29,341		33,588
Income taxes payable		1,715		912
Recourse notes payable		102		102
Non-recourse notes payable		75,061		84,977
Deferred tax liability		2,957		2,957
Total Liabilities		192,560		189,400
COMMITMENTS AND CONTINGENCIES (Note 7)				
STOCKHOLDERS' EQUITY				
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued or outstanding		-		-
Common stock, $.01 par value; 25,000,000 shares authorized; 11,618,272 issued and 8,201,618 outstanding at June 30, 2009 and 11,504,167 issued and 8,088,513 outstanding at March 31, 2009		116		115

Additional paid-in capital		80,982		80,055
Treasury stock, at cost, 3,416,591 and 3,415,654 shares, respectively		(37,240)		(37,229)
Retained earnings		133,353		131,452
Accumulated other comprehensive income—foreign currency translation adjustment		190		79
Total Stockholders' Equity		177,401		174,472
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	369,961	$	363,872

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30, 2009	2008
	(amounts in thousands, except shares and per share data)	
REVENUES		
Sales of product and services	$ 140,450	$ 165,759
Sales of leased equipment	1,488	1,265
	141,938	167,024
Lease revenues	8,075	11,625
Fee and other income	2,407	3,637
	10,482	15,262
TOTAL REVENUES	152,420	182,286
COSTS AND EXPENSES		
Cost of sales, product and services	120,571	143,717
Cost of leased equipment	1,410	1,226
	121,981	144,943
Direct lease costs	2,548	3,794
Professional and other fees	1,817	2,545
Salaries and benefits	17,925	19,464
General and administrative expenses	3,506	3,788
Interest and financing costs	1,305	1,485
	27,101	31,076
TOTAL COSTS AND EXPENSES (1)	149,082	176,019
EARNINGS BEFORE PROVISION FOR INCOME TAXES	3,338	6,267
PROVISION FOR INCOME TAXES	1,437	2,574
NET EARNINGS	$ 1,901	$ 3,693
NET EARNINGS PER COMMON SHARE—BASIC	$ 0.23	$ 0.45
NET EARNINGS PER COMMON SHARE—DILUTED	$ 0.23	$ 0.43
WEIGHTED AVERAGE SHARES OUTSTANDING—BASIC	8,147,685	8,253,552

WEIGHTED AVERAGE SHARES OUTSTANDING—DILUTED	8,415,531	8,580,659

(1) Includes amounts to related parties of $283 and $278 for the three months ended June 30, 2009 and 2008, respectively.

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30, 2009	2008
	(in thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 1,901	$ 3,693
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	3,071	4,290
Reserves for credit losses and sales returns	101	17
Provision for inventory allowances and inventory returns	166	96
Share-based compensation expense	56	31
Excess tax benefit from exercise of stock options	(82)	(66)
Tax benefit of stock options exercised	129	97
Payments from lessees directly to lenders—operating leases	(2,001)	(2,835)
Loss on disposal of property and equipment	4	8
Gain on sale or disposal of operating lease equipment	204	(372)
Increase in cash value of officers' life insurance	(4)	-
Changes in:		
Accounts receivable—net	(3,035)	(2,431)
Notes receivable	(1,381)	(5,805)
Inventories—net	(4,228)	455
Investment in direct financing and sale-type leases—net	(15,507)	(9,274)
Other assets	1,351	(5,411)
Accounts payable—equipment	4,012	(501)
Accounts payable—trade	391	3,011
Salaries and commissions payable, accrued expenses and other liabilities	(3,474)	3,266
Net cash used in operating activities	(18,326)	(11,731)
Cash Flows From Investing Activities:		
Proceeds from sale or disposal of operating lease equipment	517	750
Purchases of operating lease equipment	(395)	(1,302)
Purchases of property and equipment	(167)	(231)
Premiums paid on officers' life insurance	(79)	(79)
Cash used in acquisition, net of cash acquired	-	(364)
Net cash used in investing activities	(124)	(1,226)

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

	Three Months Ended June 30,	
	2009	2008
Cash Flows From Financing Activities:	(in thousands)	
Borrowings:		
Non-recourse	2,508	16,299
Repayments:		
Non-recourse	(1,210)	(1,757)
Repurchase of common stock	(10)	-
Proceeds from issuance of capital stock through option exercise	743	343
Excess tax benefit from exercise of stock options	82	66
Net borrowings on floor plan facility	12,055	1,420
Net cash provided by financing activities	14,168	16,371
Effect of Exchange Rate Changes on Cash	(183)	11
Net (Decrease) Increase in Cash and Cash Equivalents	(4,465)	3,425
Cash and Cash Equivalents, Beginning of Period	107,788	58,423
Cash and Cash Equivalents, End of Period	$ 103,323	$ 61,848
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 123	$ 141
Cash paid for income taxes	$ 759	$ 2,432
Schedule of Non-Cash Investing and Financing Activities:		
Purchase of property and equipment included in accounts payable	$ 117	$ 19
Purchase of operating lease equipment included in accounts payable	$ 20	$ 13
Principal payments from lessees directly to lenders	$ 11,257	$ 12,842

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

The Unaudited Condensed Consolidated Financial Statements of ePlus inc. and subsidiaries and notes thereto included herein are unaudited and have been prepared by us, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. All adjustments made were of a normal recurring nature.

Certain information and note disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to SEC rules and regulations.

These interim financial statements should be read in conjunction with our Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended March 31, 2009, which was filed on June 16, 2009. Operating results for the interim periods are not necessarily indicative of results for an entire year. A detailed description of the Company's significant accounting policies can be found in the audited financial statements for the fiscal year ended March 31, 2009, included in the Company's Annual Report on Form 10-K. There have been no other significant changes to the accounting policies that were included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

PRINCIPLES OF CONSOLIDATION — 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.

SUBSEQUENT EVENTS – Management has evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

COMPREHENSIVE INCOME — Comprehensive income consists of net income and foreign currency translation adjustments. For the three months ended June 30, 2009, other comprehensive income was $112 thousand, and net income was $1.9 million. This resulted in total comprehensive income of $2.0 million for the three months ended June 30, 2009. For the three months ended June 30, 2008, other comprehensive income was $11 thousand, and net income was $3.7 million. This resulted in total comprehensive income of $3.7 million for the three months ended June 30, 2008.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS — In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2"), which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. On April 1, 2009, we adopted FSP No. 157-2 and SFAS No. 157 as it applies to those non-financial assets and liabilities. The adoption did not have a material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces SFAS No. 141. SFAS No. 141R (i) applies to all transactions in which an entity obtains control of one or more businesses, including those without the transfer of consideration, (ii) defines the acquirer as the entity that obtains control on the acquisition date, (iii) requires the measurement at fair value of the acquired assets, assumed liabilities and noncontrolling interest, (iv) requires that the acquisition and restructuring related costs be recognized separately from the business combinations, and (v) requires that goodwill be recognized as of the acquisition date, measured as residual, which in most cases will result in the excess of consideration plus acquisition-date fair value of noncontrolling interest over the fair values of identifiablenet assets.   In addition, under SFAS No. 141R, “negative goodwill,” in which consideration given is less than the acquisition-date fair value of identifiable net assets, will be recognized as a gain to the acquirer. SFAS No. 141R is applied prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS No. 141R on April 1, 2009. The adoption of SFAS No. 141R did not impact our financial statements for prior periods. Impact of the adoption of SFAS No. 141R for financial statements in the future periods will depend on the nature of acquisitions completed after April 1, 2009.

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In April 2009, the FASB issued Staff Position ("FSP") No. 141 R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," ("FSP 141R-1"). FSP 141R-1 amends SFAS No. 141R by establishing a set of criteria to account for assets and liabilities arising from contingencies in business combinations. Under FSP 141R-1, an acquirer is required to recognize, at fair value, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, "Accounting for Contingencies," and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss – an interpretation of FASB Statement No. 5." We adopted FSP 141R-1 on April 1, 2009. The adoption of FSP 141R-1 did not impact our financial statements for prior periods. Impact of the adoption of SFAS No. 141R for financial statements in the future periods will depend on the nature of acquisitions completed after April 1, 2009.

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Asset."("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. FSP No. 142-3 (i) requires companies to consider whether renewal can be completed without substantial cost or material modification of the existing terms and conditions associated with the asset and (ii) replaces the previous useful life criteria with a new requirement-that an entity consider its own historical experience in renewing similar arrangements. If historical experience does not exist, then we would consider market participant assumptions regarding renewal including highest and best use of the asset by a market participant and adjustments for other entity-specific factors included in SFAS No. 142. We adopted FSP No. 142-3 on April 1, 2009. The adoption of FSP No. 142-3 did not have a material impact on our financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 require companies to disclose in interim financial statements the fair value of financial instruments within the scope of FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments." The fair-value information disclosed in the footnotes must be presented together with the related carrying amount, making it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the balance sheet. FSP FAS 107-1 and APB 28-1 also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009. We adopted the disclosure requirements of FSP FAS 107-1 and APB 28-1 for the quarter ended June 30, 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on our financial statements.

In November 2008, the FASB ratified EITF No. 08-7, "Accounting for Defensive Intangible Assets" ("EITF 08-7"). EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 was effective for us on April 1, 2009. The adoption of EITF 08-7 did not have a material impact on our financial statements; however, EITF 08-7 could have a material effect on the way we account for intangible assets acquired in future acquisitions. Impact of the adoption of EITF 08-7 for financial statements in the future periods will depend on the nature of intangible assets acquired in acquisitions completed after April 1, 2009.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 will be effective for the interim or annual period ending after June 15, 2009 and will be applied prospectively. We adopted SFAS No. 165 for the quarter ended June 30, 2009. SFAS No. 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. We have evaluated subsequent events through the time of filing these financial statements with the SEC on August 10, 2009.

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RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED —In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification. We do not expect the adoption of SFAS 168 to have a material impact on our business, results of operations, financial condition or cash flows.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140" ("SFAS No. 166"), which removes the concept of a qualifying special-purpose entity from FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140"). This Statement clarifies the determination on whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over the transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. SFAS No. 166 will be effective for interim and annual reporting periods beginning after November 15, 2009. We are currently evaluating the future impact SFAS No. 166 will have on our consolidated results of operations or financial condition.

2. INVESTMENT IN LEASES AND LEASED EQUIPMENT—NET

Investment in leases and leased equipment—net consists of the following:

	As of	
	June 30, 2009	March 31, 2009
	(in thousands)	
Investment in direct financing and sales-type leases—net	$103,005	$96,741
Investment in operating lease equipment—net	20,255	22,515
	$123,260	$119,256

INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES—NET

Our investment in direct financing and sales-type leases—net consists of the following:

	As of	
	June 30, 2009	March 31, 2009
	(in thousands)	
Minimum lease payments	$101,205	$93,840
Estimated unguaranteed residual value (1)	12,535	13,001
Initial direct costs, net of amortization (2)	826	859

Less: Unearned lease income	(9,963)	(9,360)
Reserve for credit losses	(1,598)	(1,599)
Investment in direct financing and sales-type leases—net	$103,005	$96,741

(1) Includes estimated unguaranteed residual values of $2,234 thousand and $1,790 thousand as of June 30, 2009 and March 31, 2009, respectively, for direct-financing leases accounted for under SFAS No. 140.
(2) Initial direct costs are shown net of amortization of $1,041 thousand and $940 thousand as of June 30, 2009 and March 31, 2009, respectively.

Our net investment in direct financing and sales-type leases is collateral for non-recourse and recourse equipment notes, if any.

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INVESTMENT IN OPERATING LEASE EQUIPMENT—NET

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

	As of June 30, 2009	As of March 31, 2009
	(in thousands)	
Cost of equipment under operating leases	$ 51,736	$ 53,227
Less: Accumulated depreciation and amortization	(31,481)	(30,712)
Investment in operating lease equipment—net (1)	$ 20,255	$ 22,515

(1) Includes estimated unguaranteed residual values of $13,653 thousand and $14,178 thousand as of June 30, 2009 and March 31, 2009, respectively, for operating leases.

During the three months ended June 30, 2009 and 2008, we sold portions of our lease portfolio. The sales were reflected on our Unaudited Condensed Consolidated Financial Statements as sales of leased equipment totaling approximately $1.5 million and $1.3 million, and cost of leased equipment of $1.4 million and $1.2 million for the three months ended June 30, 2009 and 2008, respectively. There was a corresponding reduction of investment in leases and lease equipment—net of $1.4 million and $1.2 million at June 30, 2009 and 2008, respectively.

3. GOODWILL

Our annual impairment test for goodwill is performed during the third quarter of our fiscal year, or when events or circumstances indicate there might be impairment, and follow the two-step process prescribed in SFAS No. 142, “Goodwill and Other Intangible Assets,” (“SFAS No. 142”). As of June 30, 2009, no indicators of impairment have been identified. We will continue to monitor the market, our operational performance and general economic conditions. A downward trend in one or more of these factors could cause us to reduce the estimated fair value of our reporting units and recognize a future corresponding impairment of our goodwill. At June 30, 2009, our goodwill balance was $21.6 million.

4. RESERVES FOR CREDIT LOSSES

As of March 31, 2009 and June 30, 2009, our activity in our reserves for credit losses is as follows (in thousands):

	Accounts Receivable	Lease-Related Assets	Total
Balance March 31, 2009	$ 1,493	$ 1,599	$ 3,092
Provision for Bad Debts	(68)	-	(68)
Recoveries	53	-	53
Write-offs and other	(34)	(1)	(35)
Balance June 30, 2009	$ 1,444	$ 1,598	$ 3,042

Included in our Unaudited Condensed Consolidated Statement of Operations are increases in bad debt expense of $68 thousand for the three months ended June 30, 2009.

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5. RECOURSE AND NON-RECOURSE NOTES PAYABLE

As of June 30, 2009 and March 31, 2009, recourse and non-recourse obligations consisted of the following:

	As of	
	June 30, 2009	March 31, 2009
	(in thousands)	
First Bank of Highland Park recourse note payable at 5.5% expires on April 1, 2011 or when the early termination option of a lease is enacted.	$ 102	$ 102
Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 5.66% to 9.00% for the three months ended June 30, 2009 and 4.34% to 8.76% for the year ended March 31, 2009	$ 75,061	$ 84,977

Principal and interest payments on the recourse and non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the lessee under the leases that collateralize the notes payable. Under recourse financing, in the event of a default by a lessee, the lender has recourse against the lessee, the equipment serving as collateral, and us. Under non-recourse financing, in the event of a default by a lessee, the lender generally only has recourse against the lessee, and the equipment serving as collateral, but not against us.

Our technology sales business segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance Corporation ("GECDF"). This facility provides short-term capital for our reseller business. There are two components of the GECDF credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $57.2 million and $45.1 million as of June 30, 2009 and March 31, 2009, respectively. Under the accounts receivable component, we had no outstanding balances as of June 30, 2009 and March 31, 2009. As of June 30, 2009, the facility agreement had an aggregate limit of the two components of $125 million, and the accounts receivable component had a sub-limit of $30 million, which bears interest at prime less 0.5%, or 4.75%. Availability under the GECDF 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 total tangible net worth and subordinated debt, and maximum debt to tangible net worth ratio of ePlus Technology, inc. We were in compliance with these covenants as of June 30, 2009. Either party may terminate with 90 days' advance notice.

The facility provided by GECDF requires a guaranty of up to $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2009, as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology sales business and as an operational function of our accounts payable process.

National City Bank (a wholly-owned subsidiary of PNC Financial Services Group, Inc.) provided a credit facility which could have been used for all ePlus inc.'s subsidiaries. This credit facility expired July 10, 2009. Borrowings under our $35 million line of credit from National City Bank were subject to certain covenants. We had no balance on this facility as of the expiration date. Any borrowings on this facility would have been secured by our assets.

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6. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2009, we leased approximately 55,880 square feet for use as our principal headquarters from Norton Building 1, LLC for a monthly payment of approximately $89 thousand which includes rent and operating expenses. Norton Building 1, LLC is a limited liability company owned in part by Mr. Norton's spouse and in part in trust for his children. Mr. Norton, our President and CEO, has no managerial or executive role in Norton Building 1, LLC. On June 18, 2009, we entered into Amendment No. 2 to the office lease agreement with Norton Building 1, LLC pursuant to which we will continue to lease 55,880 square feet for use as our principal headquarters. The term of the amended lease will begin January 1, 2010, and will continue for five years from such date. In addition, we have the right to terminate the lease on December 31, 2012 in the event that the facility no longer meets our needs, by giving six months' prior written notice, with no penalty fee. The annual base rent, which includes an expenses factor, is $21.50 per square foot for the first year, with an annual rent escalation for operating cost increases, if any, plus 2.75% of the annual base rent, net of the expenses factor, for each year thereafter. The amended lease was approved by the Nominating and Corporate Governance Committee in accordance with our Related Person Transaction Policy, and was subsequently approved by our Board of Directors, with Mr. Norton abstaining. During the three months ended June 30, 2009 and June 30, 2008, we paid rent, which includes operating expenses, in the amount of $283 thousand and $278 thousand respectively

7. COMMITMENTS AND CONTINGENCIES

Litigation

We have been involved in several matters relating to a customer named Cyberco Holdings, Inc. ("Cyberco"). The Cyberco principals were perpetrating a scam, and at least five principals have pled guilty to criminal conspiracy and/or related charges, including bank fraud, mail fraud and money laundering. One lender who financed our transaction with Cyberco, Banc of America Leasing and Capital, LLC ("BoA"), filed a lawsuit against ePlus inc. in the Circuit Court for Fairfax County, Virginia on November 3, 2006, seeking to enforce a guaranty in which ePlus inc. guaranteed ePlus Group's obligations to BoA relating to the Cyberco transaction. The suit has been stayed pending the resolution of other Cyberco-related matters. We are vigorously defending this suit. As we do not believe a loss is probable or the amount is reasonably estimable, we have not accrued for this matter.

On July 31, 2009, the United States District Court for the District of Columbia dismissed the shareholder derivative action which had been filed on January 18, 2007. The action, which related to stock option practices, named ePlus inc. as nominal defendant and personally named eight individual defendants who are directors and/or executive officers of ePlus inc. The action alleged violations of federal securities law, and various state law claims such as breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and sought monetary damages from the individual defendants and that we take certain corrective actions relating to option grants and corporate governance, and attorneys' fees.

On May 19, 2009, we filed a complaint in the United States District Court for the Eastern District of Virginia against four defendants, alleging that they used or sold products, methods, processes, services and/or systems that infringe on certain of our patents. We entered into a settlement agreement with one defendant, effective as of July 7, 2009, wherein the complaint was dismissed with prejudice with regard to that specific defendant, and that defendant was granted a license in specified ePlus patents. With regard to the remaining defendants, we are seeking injunctive relief and an unspecified amount of monetary damages.

We are also engaged in other ordinary and routine litigation incidental to our business. While we cannot predict the outcome of these various legal proceedings, management does not believe that the ultimate resolution will have a material effect on our financial condition, results of operations, or cash flows.

Regulatory and Other Legal Matters

In August 2006, the Audit Committee voluntarily contacted and advised the staff of the SEC that it had commenced an investigation of our stock option grants since our initial public offering in 1996 and that a restatement would be required. This restatement was included in our Form 10-K for the fiscal year ended March 31, 2006, and was filed with the SEC on August 16, 2007. The SEC opened an informal inquiry, and subsequently notified us by letter dated June 17, 2009 that its informal inquiry has been completed and that the Staff does not intend to recommend any enforcement action against us.

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8. EARNINGS PER SHARE

Earnings per share ("EPS") have been calculated in accordance with SFAS No. 128, "Earnings per Share" ("SFAS No. 128"). Additional shares included in the diluted EPS calculations are attributable to incremental shares issuable upon the assumed exercise of stock options and other common stock equivalents. Under SFAS No. 128, share options and nonvested shares under a share-based compensation arrangement are considered options for purposes of computing diluted EPS.

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 Condensed Consolidated Statements of Operations for the three months ended June 30, 2009 and 2008 (in thousands, except per share data).

	Three months ended June 30,			
		2009		2008
Net income available to common shareholders—basic and diluted	$	1,901	$	3,693
Weighted average shares outstanding — basic		8,148		8,254
Effect of dilutive shares		268		327
Weighted average shares outstanding — diluted	$	8,416	$	8,581
Income per common share:				
Basic	$	0.23	$	0.45
Diluted	$	0.23	$	0.43

Unexercised employee stock options for 195,000 and 290,507 shares of our common stock were not included in the computations of diluted EPS for the three months ended June 30, 2009 and 2008, respectively, because the options' exercise prices were greater than the average market price of our common stock during the applicable periods.

9. SHARE REPURCHASE

On July 31, 2008, our Board authorized a share repurchase plan commencing after August 4, 2008. The share repurchase plan was for a 12-month period ending August 4, 2009 for up to 500,000 shares of ePlus' outstanding common stock. The previous stock repurchase program expired on November 17, 2006. On February 11, 2009, our Board of Directors amended our current share repurchase plan, which commenced August 4, 2008. The plan, as amended, has been extended through September 15, 2009, and we may repurchase up to 500,000 shares of ePlus' outstanding common stock beginning February 12, 2009. The purchases may 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 three months ended June 30, 2009, we repurchased 937 shares of our outstanding common stock at an average cost of $11.00 per share for a total purchase price of $10 thousand. Since the inception of our initial repurchase program on September 20, 2001, as of June 30, 2009, we have repurchased 3,416,591 shares of our outstanding common stock at an average cost of $10.90 per share for a total purchase price of $37.2 million.

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10. SHARE-BASED COMPENSATION

Share-Based Plans

We have issued share-based awards under the following plans: (1) the 1998 Long-Term Incentive Plan (the "1998 LTIP"), (2) Amendment and Restatement of the 1998 Stock Incentive Plan (2001) (the "Amended LTIP (2001)"), (3) Amendment and Restatement of the 1998 Stock Incentive Plan (2003) (the "Amended LTIP (2003)"), (4) the 2008 Non-Employee Director Long-Term Incentive Plan ("2008 Director LTIP") and (5) the 2008 Employee Long-Term Incentive Plan ("2008 Employee LTIP"). However, we no longer issue awards under the 1998 LTIP, the Amended LTIP (2001), or the Amended LTIP (2003). Currently, awards are only issued under the 2008 Director LTIP and the 2008 Employee LTIP. Sections of these plans are summarized below. All the share-based plans require the use of the previous trading day's closing price when the grant date falls on a date the stock was not traded.

Vesting periods varied for the 1998 LTIP, the Amended LTIP (2001), and the Amended LTIP (2003) depending on individual award agreement. Vesting periods for the 2008 Director LTIP and the 2008 Employee LTIP are discussed below.

1998 Long-Term Incentive Plan

The 1998 LTIP was adopted by the Board on July 28, 1998, which is its effective date, and approved by the shareholders on September 16, 1998. The allowable number of shares under the 1998 LTIP was 20% of the outstanding shares, less shares previously granted and shares purchased through our then-existing employee stock purchase program. It specified that options shall be priced at not less than fair market value. The 1998 LTIP consolidated our preexisting stock incentive plans and made the Compensation Committee of the Board of Directors ("Compensation Committee") responsible for its administration. The 1998 LTIP required that grants be evidenced in writing, but the writing was not a condition precedent to the grant of the award.

Under the 1998 LTIP, options were to be automatically awarded to non-employee directors the day after the annual shareholders meeting to all non-employee directors in service as of that day. No automatic annual grants may be awarded under the LTIP after September 1, 2006. The LTIP also permits for discretionary option awards to directors.

Amended and Restated 1998 Long-Term Incentive Plan

Minor amendments were made to the 1998 LTIP on April 1, April 17 and April 30, 2001. The amendments change the name of the plan from the 1998 Long-Term Incentive Plan to the Amended and Restated 1998 Long-Term Incentive Plan. In addition, provisions were added "to allow the Compensation Committee to delegate to a single board member the authority to make awards to non-Section 16 insiders, as a matter of convenience," and to provide that "no option granted under the Plan may be exercisable for more than ten years from the date of its grant."

The Amended LTIP (2001) was amended on July 15, 2003 by the Board and approved by the stockholders on September 18, 2003. Primarily, the amendment modified the aggregate number of shares available under the plan to a fixed number (3,000,000). Although the language varies somewhat from earlier plans, it permits the Board or Compensation Committee to delegate authority to a committee of one or more directors who are also officers of the corporation to award options under certain conditions. The Amended LTIP (2003) replaced all the prior plans, and covered option grants for employees, executives and outside directors.

On September 15, 2008, our shareholders approved the 2008 Director LTIP and the 2008 Employee LTIP. Both of the plans were adopted by the Board on June 25, 2008. As a result of the approval of these plans, we will not grant any awards under the Amended LTIP (2003) or any earlier plan.

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2008 Non-Employee Director Plan

Under the 2008 Director LTIP, 250,000 shares were authorized for grant to non-employee directors. The purpose of the 2008 Director LTIP is to align the economic interests of the directors with the interests of shareholders by including equity as a component of pay and to attract, motivate and retain experienced and knowledgeable directors. Under the 2008 Director LTIP, each non-employee director received a one-time grant of a number of restricted shares of common stock having a grant-date fair value of $35 thousand. The grant-date fair value for this one-time grant was determined based on the share closing price on September 25, 2008. In addition, each director will receive an annual grant of restricted stock having a grant-date fair value equal to the cash compensation earned by an outside director during our fiscal year ended immediately before the respective annual grant-date. Directors may elect to receive their cash compensation in restricted stock. These restricted shares are prohibited from being sold, transferred, assigned, pledged or otherwise encumbered or disposed of. Half of these shares will vest on the one-year and second-year anniversary from the date of the grant.

2008 Employee Long-Term Incentive Plan

Under the 2008 Employee LTIP, 1,000,000 shares were authorized for grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, and other share-based awards to ePlus employees. The purposes of the 2008 Employee LTIP are to encourage our employees to acquire a proprietary interest in the growth and performance of ePlus, thus enhancing the value of ePlus for the benefit of its stockholders, and to enhance our ability to attract and retain exceptionally qualified individuals. The 2008 Employee LTIP is administered by the Compensation Committee. Shares issuable under the 2008 Employee LTIP may consist of authorized but unissued shares or shares held in our treasury. Shares under the 2008 Employee LTIP will not be used to compensate our outside directors, who may be compensated under the separate 2008 Director LTIP, as discussed above. As of June 30, 2009, we have not granted any awards under the 2008 Employee LTIP. Under the 2008 Employee LTIP, the Compensation Committee will determine the time and method of exercise of the awards.

Stock Option Activity

During the three months ended June 30, 2009 and 2008, there were no stock options granted to employees.

	Number of Shares	Exercise Price Range	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (in years)	Aggregate Intrinsic Value
Outstanding, April 1, 2009	908,280	$ 6.23 - $17.38	$ 10.29	2.2	$ 2,403,133
Options granted	-	-	-	-	-
Options exercised (1)	(114,105)	$ 6.86 - $13.00	$ 7.65	-	$ 693,918
Options forfeited	(1,100)	$ 9.00 - $17.38	$ 16.61	-	-
Outstanding, June 30, 2009	793,075	$ 6.23 - $17.38	$ 10.67	2.1	$ 3,557,044
	793,075		$ 10.67	2.1	$ 3,557,044

Vested or expected to vest at June 30, 2009						
Exercisable, June 30, 2009	793,075	$	10.67	2.1	$	3,557,044

(1) The total intrinsic value of stock options exercised during the three months ended June 30, 2009 was $694 thousand.

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Additional information regarding stock options outstanding as of June 30, 2009 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Contractual Life Remaining	Options Exercisable	Weighted Average Exercise Price per Share
$ 6.23 - $9.00	452,585	$ 7.60	1.3	452,585	$ 7.60
$ 9.01 - $13.50	145,500	$ 11.80	5.0	145,500	$ 11.80
$ 13.51 - $17.38	195,000	$ 16.94	1.8	195,000	$ 16.94
$ 6.23 - $17.38	793,085	$ 10.67	2.1	793,085	$ 10.67

We issue shares from our authorized but unissued common stock to satisfy stock option exercises. At June 30, 2009, all of our options are vested.

Restricted Stock

Under the 2008 Director LTIP, each director will receive an annual grant of restricted stock having a grant-date fair value equal to the cash compensation earned by an outside director during our fiscal year ended immediately before the respective annual grant-date. Directors may elect to receive their cash compensation in restricted stock. These restricted shares are prohibited from being sold, transferred, assigned, pledged or otherwise encumbered or disposed of. These shares will be vested over a two-year period and we will recognize share-based compensation expense over the service period. We estimate the forfeiture rate of the restricted stock to be zero.

A summary of restricted stock activity during the three months ended June 30, 2009 is as follows:

	Number of Shares	Weighted Average Grant-date Fair Value
Outstanding, March 31, 2009	38,532	$ 10.90
Shares granted (1)	2,244	$ 11.69
Shares forfeited	-	
Outstanding, June 30, 2009	40,776	$ 10.94

(1) Three of our directors received restricted shares in lieu of their cash compensation. Therefore, during the three months ended June 30, 2009, the directors were issued 748 shares each with a grant-date fair value of $11.69 per share.

Share-based Compensation Expense

We account for share-based compensation expense in accordance with SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”). We use the Black-Scholes option-pricing model to value all options and the straight-line method to amortize this fair value as compensation cost over the requisite service period.

During the three months ended June 30, 2009, we recognized $56 thousand of total share-based compensation expense, all of which was related to restricted stock. This amount was recorded as professional and other fees in our Unaudited Condensed Consolidated Statements of Operations.

During the three months ended June 30, 2008, we recognized $31 thousand of total share-based compensation expense, all of which was related to stock options. There was no share-based compensation expense related to restricted stock for the three months ended June 30, 2008. This amount was recorded as salaries and benefits in our Unaudited Condensed Consolidated Statements of Operations.

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At June 30, 2009, there was no unrecognized compensation expense related to nonvested options because all the options were vested. Unrecognized compensation expense related to the restricted stock was $282 thousand which will be fully recognized over the next 21 months.

11. INCOME TAXES

We account for tax positions related to income taxes subject to SFAS 109, “Accounting for Income Taxes” in accordance with FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (“FIN 48”).

As of June 30, 2009, our gross FIN 48 tax liability was $525 thousand. We expect that the gross unrecognized tax benefit will decrease by approximately $67 thousand in the next 12 months.

In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. This policy did not change as a result of the adoption of FIN 48. Our Unaudited Condensed Consolidated Statement of Operations for the three months ended June 30, 2009 includes additional interest of $9 thousand.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of our financial instruments is in accordance with the provisions of SFAS No. 107, “Disclosures About Fair Value of Financial Instruments.” The valuation methods we used are set forth below.

The accuracy and usefulness of the fair value information disclosed herein is limited by the following factors:

— These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

— These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holding of a particular financial asset.

— SFAS No. 107 excludes from its disclosure requirements lease contracts and various significant assets and liabilities that are not considered to be financial instruments.

Because of these and other limitations, the aggregate fair value amounts presented in the following table do not represent the underlying value. We determine the fair value of notes payable by applying an average portfolio debt rate and applying such rate to future cash flows of the respective financial instruments. The fair value of cash and cash equivalents is determined to equal the book value.

The carrying amounts and estimated fair values of our financial instruments are as follows (in thousands):

	As of June 30, 2009		As of March 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 103,323	$ 103,323	$ 107,788	$ 107,788
Accounts receivable	85,253	85,253	82,734	82,734
Notes receivable	4,013	4,013	2,632	2,632

Liabilities:				
Accounts payable	83,384	83,384	66,864	66,864
Accrued expenses and other liabilities	29,341	29,341	33,588	33,588
Non-recourse notes payable	75,061	74,711	84,977	84,551
Recourse notes payable	102	102	102	102

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13. SEGMENT REPORTING

We manage our business segments on the basis of the products and services offered. Our reportable segments consist of our traditional financing business unit and technology sales business unit. The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. The technology sales business unit sells information technology equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides Internet-based business-to-business supply chain management solutions for information technology and other operating resources. We evaluate segment performance on the basis of segment net earnings.

Both segments utilize our proprietary software and services throughout the organization. Sales and services and related costs of our software are included in the technology sales business unit.

	Three months ended June 30, 2009			Three months ended June 30, 2008		
	Technology Sales Business Segment	Financing Business Segment	Total	Technology Sales Business Segment	Financing Business Segment	Total
Sales of product and services	$139,992	$458	$140,450	$164,028	$1,731	$165,759
Sales of leased equipment	-	1,488	1,488	-	1,265	1,265
Lease revenues	-	8,075	8,075	-	11,625	11,625
Fee and other income	2,257	150	2,407	3,530	107	3,637
Total revenues	142,249	10,171	152,420	167,558	14,728	182,286
Cost of sales	120,063	1,918	121,981	142,628	2,315	144,943
Direct lease costs	-	2,548	2,548	-	3,794	3,794
Selling, general and administrative expenses	19,934	3,314	23,248	21,587	4,210	25,797
Segment earnings	2,252	2,391	4,643	3,343	4,409	7,752
Interest and financing costs	18	1,287	1,305	20	1,465	1,485
Earnings before income taxes	$2,234	$1,104	$3,338	$3,323	$2,944	$6,267
Assets	$185,832	$184,129	$369,961	$157,431	$235,034	$392,465

Included in the financing business segment above are inter-segment accounts receivable of $37.5 million and $48.8 million at June 30, 2009 and 2008, respectively. Included in the technology sales business segment above are inter-segment accounts payable of $37.5 million and $48.8 million at June 30, 2009 and 2008, respectively.

For the three months ended June 30, 2009 and 2008, our technology sales business segment sold products to our financing business segment of $0.3 million and $0.4 million, respectively.

14. SUBSEQUENT EVENT

On May 19, 2009, we filed a complaint in the United States District Court for the Eastern District of Virginia against four defendants, alleging that they used or sold products, methods, processes, services and/or systems that infringe on certain of our patents. Effective as of July 7, 2009, we entered into a settlement agreement with one defendant wherein the complaint was dismissed with prejudice with regard to that specific defendant, and that defendant was granted a license in specified ePlus patents. With regard to the remaining defendants, we are seeking injunctive relief and an unspecified amount of monetary damages.

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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 the consolidated financial condition and results of operations of our company. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended March 31, 2009 (the "2009 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 contains a number of 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 2009 Annual Report.

EXECUTIVE OVERVIEW

Business Description

ePlus and its consolidated subsidiaries provide leading IT products and services, flexible leasing solutions, and enterprise supply management to enable our customers to optimize their IT infrastructure and supply chain processes. Our revenues are composed of sales of product and services, sales of leased equipment, lease revenues and fee and other income. Our operations are conducted through two business segments: our technology sales business unit and our financing business unit.

Financial Summary

During the three months ended June 30, 2009, total revenue decreased 16.4% to $152.4 million compared to the three months ended June 30, 2008, as a result of an overall softening in the economy, which delayed our customers' investment in capital equipment. Total costs and expenses decreased 15.3% to $149.1 million as compared to the three months ended June 30, 2008. During the three months ended June 30, 2009, net earnings decreased 48.5% to $1.9 million as compared to the same period in 2008. Gross margin for product and services improved from 13.3% to 14.2% during the three months ended June 30, 2009. Our gross margin on sales of product and services was affected by our customers' investment in technology equipment, the mix and volume of products sold and changes in incentives provided to us by manufacturers. Cash decreased $4.5 million or 4.1% to $103.3 million at June 30, 2009 compared to March 31, 2009.

The United States and other countries around the world have been experiencing deteriorating economic conditions, including unprecedented financial market disruption. As a result of the financial crisis in the credit markets, softness in the housing markets, difficulties in the financial services sector and continuing economic uncertainties, the direction and relative strength of the U.S. economy has become increasingly uncertain. This has caused our current and potential customers to delay or reduce technology purchases, which has reduced sales of our products and services. Continuing deterioration of economic conditions could cause our current and potential customers to further delay or reduce technology purchases and result in longer sales cycles, slower adoption of new technologies and increased price competition. Restrictions on credit may impact economic activity and our results. Credit risk associated with our customers and vendors may also be adversely impacted. In addition, although we do not anticipate the need for additional capital in the near term due to our current financial position, financial market disruption may adversely affect our access to additional capital.

Business Unit Overview

Technology Sales Business Unit

The technology sales business unit sells information technology equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides

Internet-based business-to-business supply chain management solutions for information technology and other operating resources.

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Our technology sales business unit derives revenue from the sales of new equipment and service engagements. These revenues are reflected on our Unaudited Condensed Consolidated Statements of Operations under sales of product and services and fee and other income. Many customers purchase information technology equipment from us using Master Purchase Agreements ("MPAs") in which the terms and conditions of our relationship are stipulated. Some MPAs contain pricing arrangements. However, the MPAs do not contain purchase volume commitments and most have 30-day termination for convenience clauses. Our other customers place orders using purchase orders without an MPA in place. A substantial portion of our sales of product and services are from sales of CISCO, Hewlett Packard and Sun Microsystem products, which represent approximately 35%, 18% and 8% of sales, respectively, for the three months ended June 30, 2009.

Included in the sales of product and services in our technology sales business unit are certain service revenues that are bundled with sales of equipment and are integral to the successful delivery of such equipment. Our service engagements are generally governed by Statements of Work and/or Master Service Agreements. They are primarily fixed fee; however, some service agreements are based on time and materials or estimates.

We endeavor to minimize the cost of sales in our technology sales business unit through vendor consideration programs provided by manufacturers. The programs are generally governed by our reseller authorization level with the manufacturer. The authorization level we achieve and maintain governs the types of 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 sales volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorizations are costly to maintain and these programs continually change and, therefore, there is no guarantee of future reductions of costs provided by these vendor consideration programs. We currently maintain the following authorization levels with our major manufacturers:

Manufacturer	Manufacturer Authorization Level
Hewlett Packard	HP Preferred Elite Partner (National)
Cisco Systems	Cisco Gold DVAR (National) Advanced Wireless LAN Advanced Unified Communications Advanced Data Center Storage Networking Advanced Routing and Switching Advanced Security ATP Video Surveillance ATP Telepresence ATP Rich Media Communications Master Security Specialization Master UC Specialization
Microsoft	Microsoft Gold (National)
Sun Microsystems	Sun SPA Executive Partner (National) Sun National Strategic DataCenter Authorized
IBM	Premier IBM Business Partner (National)
Lenovo	Lenovo Premium (National)

NetApp	NetApp STAR Partner
Citrix Systems, Inc.	Citrix Gold (National)

Through our technology sales business unit we also generate revenue through hosting arrangements and sales of our software. These revenues are reflected on our Unaudited Condensed Consolidated Statements of Operations under fee and other income. In addition, fee and other income results from: (1) income from events that occur after the initial sale of a financial asset; (2) remarketing fees; (3) brokerage fees earned for the placement of financing transactions; (4) agent fees received from various manufacturers; (5) settlement fees related to disputes or litigation; and (6) interest and other miscellaneous income.

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Financing Business Unit

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

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

Sales of leased equipment represent revenue from the sales to a third party other than the lessee of equipment subject to a lease in which we are the lessor. Such sales of equipment may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. If the rental stream on such lease has non-recourse debt associated with it, sales revenue is recorded at the amount of consideration received, net of the amount of debt assumed by the purchaser. If there is no non-recourse debt associated with the rental stream, sales revenue is recorded at the amount of gross consideration received, and costs of sales is recorded at the book value of the lease.

Fluctuations in Revenues

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

We have expanded our product and service offerings under our comprehensive set of solutions which represents the continued evolution of our original implementation of our e-commerce products entitled ePlusSuite®. The expansion to our bundled solution is a framework that combines our IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2"), which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. On April 1, 2009, we adopted FSP No. 157-2 and SFAS No. 157 as it applies to those non-financial assets and liabilities. The adoption did not have a material impact on our financial statements.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”), which replaces SFAS No. 141. SFAS No. 141R (i) applies to all transactions in which an entity obtains control of one or more businesses, including those without the transfer of consideration, (ii) defines the acquirer as the entity that obtains control on the acquisition date, (iii) requires the measurement at fair value of the acquired assets, assumed liabilities and noncontrolling interest, (iv) requires that the acquisition and restructuring related costs be recognized separately from the business combinations, and (v) requires that goodwill be recognized as of the acquisition date, measured as residual, which in most cases will result in the excess of consideration plus acquisition-date fair value of noncontrolling interest over the fair values of identifiablenet assets. In addition, under SFAS No. 141R, “negative goodwill,” in which consideration given is less than the acquisition-date fair value of identifiable net assets, will be recognized as a gain to the acquirer. SFAS No. 141R is applied prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS No. 141R on April 1, 2009. The adoption of SFAS No. 141R did not impact our financial statements for prior periods. Impact of the adoption of SFAS No. 141R for financial statements in the future periods will depend on the nature of acquisitions completed after April 1, 2009.

In April 2009, the FASB issued Staff Position (“FSP”) No. 141 R-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,” (“FSP 141R-1”). FSP 141R-1 amends SFAS No. 141R by establishing a set of criteria to account for assets and liabilities arising from contingencies in business combinations. Under FSP 141R-1, an acquirer is required to recognize, at fair value, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, “Accounting for Contingencies,” and FASB Interpretation No. 14, “Reasonable Estimation of the Amount of a Loss – an interpretation of FASB Statement No. 5.” We adopted FSP 141R-1 on April 1, 2009. The adoption of FSP 141R-1 did not impact our financial statements for prior periods. Impact of the adoption of SFAS No. 141R for financial statements in the future periods will depend on the nature of acquisitions completed after April 1, 2009.

In April 2008, the FASB issued FSP No. 142-3, “Determination of the Useful Life of Intangible Asset.”(“FSP No. 142-3”). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. FSP No. 142-3 (i) requires companies to consider whether renewal can be completed without substantial cost or material modification of the existing terms and conditions associated with the asset and (ii) replaces the previous useful life criteria with a new requirement-that an entity consider its own historical experience in renewing similar arrangements. If historical experience does not exist, then we would consider market participant assumptions regarding renewal including highest and best use of the asset by a market participant and adjustments for other entity-specific factors included in SFAS No. 142. We adopted FSP No. 142-3 on April 1, 2009. The adoption of FSP No. 142-3 did not have a material impact on our financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 require companies to disclose in interim financial statements the fair value of financial instruments within the scope of FASB Statement No. 107, “Disclosures about Fair Value of Financial Instruments.” The fair-value information disclosed in the footnotes must be presented together with the related carrying amount, making it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the balance sheet. FSP FAS 107-1 and APB 28-1 also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009. We adopted the disclosure requirements of FSP FAS 107-1 and APB 28-1 for the quarter ended June 30, 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on our financial statements.

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In November 2008, the FASB ratified EITF No. 08-7, “Accounting for Defensive Intangible Assets” (“EITF 08-7”). EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 was effective for us on April 1, 2009. The adoption of EITF 08-7 did not have a material impact on our financial statements; however, EITF 08-7 could have a material effect on the way we account for intangible assets acquired in future acquisitions. Impact of the adoption of EITF 08-7 for financial statements in the future periods will depend on the nature of intangible assets acquired in acquisitions completed after April 1, 2009.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 will be effective for the interim or annual period ending after June 15, 2009 and will be applied prospectively. We adopted SFAS No. 165 for the quarter ended June 30, 2009. SFAS No. 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. We have evaluated subsequent events through the time of filing these financial statements with the SEC on August 10, 2009.

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 establishes the FASB Accounting Standards Codification (“Codification”) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification. We do not expect the adoption of SFAS 168 to have a material impact on our business, results of operations, financial condition or cash flows.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS No. 166”), which removes the concept of a qualifying special-purpose entity from FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (“SFAS No. 140”). This Statement clarifies the determination on whether a transferor and all of the entities included in the transferor’s financial statements being presented have surrendered control over the transferred financial assets. That determination must consider the transferor’s continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. SFAS No. 166 will be effective for interim and annual reporting periods beginning after November 15, 2009. We are currently evaluating the future impact SFAS No. 166 will have on our consolidated results of operations or financial condition.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with U.S. 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, residuals, vendor consideration, lease classification, goodwill and intangibles, reserves for credit losses and income taxes specifically relating to uncertain tax positions. Estimates in the assumptions used in the valuation of our stock option expense are updated periodically and reflect conditions that existed at the time of each new issuance of stock options. 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 of these estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates routinely require adjustment.

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We consider the following accounting policies important in understanding the potential impact of our judgments and estimates on our operating results and financial condition. Our significant accounting policies, including the critical policies and practices listed below, are more fully described and discussed in the notes to consolidated financial statements for the fiscal year 2009 included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, filed with the SEC on June 16, 2009.

REVENUE RECOGNITION. The majority of our revenues are derived from three sources: sales of products and services, lease revenues and sales of our software. Our revenue recognition policies vary based upon these revenue sources. We adhere to guidelines and principles of sales recognition described in Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition” (“SAB No. 104”), issued by the staff of the SEC. Under SAB No. 104, sales are recognized when the title and risk of loss are passed to the customer, there is persuasive evidence of an arrangement for sale, delivery has occurred and/or services have been rendered, the sales price is fixed or determinable and collectability is reasonably assured. Using these tests, the vast majority of our product sales are recognized upon delivery due to our sales terms with our customers and with our vendors. For proper cutoff, we estimate the product delivered to our customers at the end of each quarter based upon historical delivery dates.

We also sell services that are performed in conjunction with product sales, and recognize revenue for these sales in accordance with EITF 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables.” Accordingly, we recognize sales from delivered items only when the delivered item(s) has value to the client on stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered item(s), and delivery of the undelivered item(s) is probable and substantially under our control. For most of the arrangements with multiple deliverables (hardware and services), we generally cannot establish reliable evidence of the fair value of the undelivered items. Therefore, the majority of revenue from these services and hardware sold in conjunction with the services is recognized when the service is complete and we have received an acceptance certificate. However, in some cases, we do not receive an acceptance certificate and we estimate the completion date based upon our records.

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

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

We seek to realize the estimated residual value at lease termination mainly through renewal or extension of the original lease or the sale of the equipment either to the lessee or on the secondary market. The difference between the proceeds of a sale and the remaining estimated residual value is recorded as a gain or loss in lease revenues when title is transferred to the lessee, or, if the equipment is sold on the secondary market, in sales of product and services and cost of sales, product and services when title is transferred to the buyer.

ASSUMPTIONS RELATED TO GOODWILL. We account for our acquisitions using the purchase method of accounting. This method requires estimates to determine the fair values of assets and liabilities acquired including judgments to determine any acquired intangible assets such as customer-related intangibles, as well as assessments of the fair value of existing assets such as property and equipment. Liabilities acquired can include balances for litigation and other contingency reserves established prior to or at the time of acquisition, and require judgment in ascertaining a reasonable value. Third-party valuation firms may be used to assist in the appraisal of certain assets and liabilities, but even those determinations are based on significant estimates provided by us, such as forecasted revenues or profits on contract-related intangibles. Numerous factors are typically considered in the purchase accounting assessments. Changes in assumptions and estimates of the acquired assets and liabilities would result in changes to the fair values, resulting in an offsetting change to the goodwill balance associated with the business acquired.

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We review our goodwill for impairment annually, or more frequently, if indicators of impairment exist. Goodwill has been assigned to four reporting units for purposes of impairment testing. We believe that for the purpose SFAS No. 142, we have four distinct reportable units: leasing, technology, software procurement and software document management. In determining reporting units, we consider factors such as nature of products, nature of production, type of customer, management and the availability of separate and distinct financial statements for each entity.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on our Unaudited Condensed Consolidated Financial Statements.

The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. We estimate fair value using the best information available, including market information. We employ the discounted cash flow method and the guideline company method, and compute a weighted average to determine the fair value of each reporting unit. The discounted cash flow method uses a reporting unit's projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in sales, costs, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We validate our estimates of fair value under the discounted cash flow method by comparing the values to fair value estimates using the guideline company method. The guideline company method estimates fair value by applying earnings multiples to the reporting unit's operating performance. The multiples are derived from publicly traded companies with similar operating and investment characteristics as our reporting units.

If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of a reporting unit's goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, we would allocate the fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, we would record an impairment charge for the difference.

VENDOR CONSIDERATION. We receive payments and credits from vendors, including consideration pursuant to volume sales incentive programs, volume purchase incentive programs and shared marketing expense programs. Many of these programs extend over one or more quarter's sales activities and are primarily formula-based. These programs can be very complex to calculate and, in some cases, we estimate that we will obtain our targets based upon historical data.

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

Consideration that exceeds the specific, incremental, identifiable costs is classified as a reduction of cost of sales, product and services on the accompanying Unaudited Condensed Consolidated Statements of Operations.

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We accrue vendor consideration in accordance with the terms of the related program which may include a certain amount of sales of qualifying products or as targets are met or as the amounts are estimable and probable or as services are provided. Actual vendor consideration amounts may vary based on volume or other sales achievement levels, which could result in an increase or reduction in the estimated amounts previously accrued, and can, at times, result in significant earnings fluctuations on a quarterly basis.

RESERVES FOR CREDIT LOSSES. The reserves for credit losses are maintained at a level believed by management to be adequate to absorb potential losses inherent in our lease and accounts receivable portfolio. Management's determination of the adequacy of the reserve is based on an evaluation of historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio and other relevant factors. These determinations require considerable judgment in assessing the ultimate potential for collection of these receivables and include giving consideration to the customer's financial condition and the value of the underlying collateral and funding status (i.e. funded on a non-recourse or recourse basis).

SALES RETURNS ALLOWANCE. The allowance for sales returns is maintained at a level believed by management to be adequate to absorb potential sales returns from product and services in accordance with SFAS No. 48, "Revenue Recognition when the Right of Return Exists" ("SFAS No. 48"). Management's determination of the adequacy of the reserve is based on an evaluation of historical sales returns and other relevant factors. These determinations require considerable judgment in assessing the ultimate potential for sales returns and include consideration of the type and volume of products and services sold.

INCOME TAX. We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which principally arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We also must analyze income tax reserves, as well as determine the likelihood of recoverability of deferred tax assets, and adjust any valuation allowances accordingly. Considerations with respect to the recoverability of deferred tax assets include the period of expiration of the tax asset, planned use of the tax asset, and historical and projected taxable income as well as tax liabilities for the tax jurisdiction to which the tax asset relates. Valuation allowances are evaluated periodically and will be subject to change in each future reporting period as a result of changes in one or more of these factors. The calculation of our tax liabilities also involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain income tax positions based on our estimate of whether, and the extent to which, additional taxes will be required.

SHARE-BASED PAYMENT. We currently have two equity incentive plans which provide us with the opportunity to compensate directors and selected employees with stock options, restricted stock and restricted stock units. A stock option entitles the recipient to purchase shares of common stock from us at the specified exercise price. Restricted stock and restricted stock units ("RSUs") entitle the recipient to obtain stock or stock units, which vest over a set period of time. RSUs are granted at no cost to the employee and employees do not need to pay an exercise price to obtain the underlying common stock. All grants or awards made under the plans are governed by written agreements between us and the participants. We also have options outstanding under three previous incentive plans, under which we no longer issue equity awards.

We account for share-based compensation under the provisions of SFAS No. 123R. We use the Black-Scholes option-pricing model to value all options and the straight-line method to amortize this fair value as compensation cost over the requisite service period.

Under the fair value method of accounting for stock-based compensation, we measure stock option expense at the date of grant using the Black-Scholes valuation model. This model estimates the fair value of the options based on a number of assumptions, such as interest rates, employee exercises, the current price and expected volatility of our common stock and expected dividends, if any. The expected life is a significant assumption as it determines the period for which the risk-free interest rate, volatility and dividend yield must be applied. The expected life is the average length of time in which we expect our employees to exercise their options. The risk-free interest rate is the five-year nominal constant maturity Treasury rate on the date of the award. Expected stock volatility reflects movements in our stock price over a historical period that matches the expected life of the options. The dividend yield assumption is zero since we have historically not paid any dividends and do not anticipate paying any dividends in the near future.

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Results of Operations — Three months ended June 30, 2009 compared to three months ended June 30, 2008

REVENUES

Total Revenues. We generated total revenues during the three months ended June 30, 2009 of $152.4 million compared to total revenues of $182.3 million during the three months June 30, 2008, a decrease of 16.4%.

Sales of product and services. Sales of product and services decreased 15.3% to $140.5 million during the three months ended June 30, 2009 as compared to $165.8 million during the three months June 30, 2008. The decrease in sales is primarily attributed to the economic downturn, which generally resulted in our customers' tendency to postpone or cancel technology equipment investments, particularly in the beginning of the quarter ended June 30, 2009. Sales of product and services represented 92.1% and 90.9% of total revenue during the three months ended June 30, 2009 and 2008, respectively. Sales of product and services as a percentage of total revenue increased as a result of proportionately larger decreases in lease revenue as compared to the same period in the prior fiscal year.

Gross margin. We realized a gross margin on sales of product and services of 14.2% and 13.3% for the three months ended June 30, 2009 and 2008, respectively. Our gross margin on sales of product and services was affected by our customers' investment in technology equipment, the mix and volume of products and services sold, and changes in incentives provided to us by manufacturers. There are ongoing changes to the programs offered to us by our manufacturers which may be affected by the current economic conditions and thus, we may not be able to maintain the level of manufacturer incentives we currently are receiving.

Lease revenues. Lease revenues decreased 30.5% to $8.1 million for the three months ended June 30, 2009, as compared to $11.6 million during the three months June 30, 2008. This decrease is primarily due to fewer leases to generate lease revenues in our operating and direct financing lease portfolio and decreases in sales of leased assets to lessees. From time to time, our lessees purchase leased assets from us before and at the end of the lease term. These purchases by lessees fluctuate primarily based upon portfolio maturity dates and amounts. During the three months ended June 30, 2009, sales of leased assets to lessees decreased 61.1% to $0.9 million, compared to $2.3 million during the three months June 30, 2008.

Sales of leased equipment. We also recognize revenue from the sale of leased equipment to non-lessee third parties. Sales of leased equipment fluctuate from quarter to quarter, and are a component of our risk-mitigation process, which we conduct to diversify our portfolio by customer, equipment type, and residual value investments. During the three months ended June 30, 2009, sales of leased equipment increased 17.6% to $1.5 million, compared to $1.3 million during the three months June 30, 2008. Gross margin on the sales of leased equipment is 5.3% and 3.1%, for the three months ended June 30, 2009 and 2008, respectively. The revenue and gross margin recognized on sales of leased equipment can vary significantly depending on the nature and timing of the sale, as well as the timing of any debt funding recognized in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as amended by SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125."

Fee and other income. For three months ended June 30, 2009, fee and other income decreased 33.8% to $2.4 million, compared to $3.6 million during the three months June 30, 2008. This decrease was primarily driven by decreases in software and related consulting revenue, agent fees from manufacturers and short-term investment income for the three months ended June 30, 2009. Fee and other income may also include revenues from adjunct services and fees, including broker and agent fees, support fees, warranty reimbursements, monetary settlements arising from disputes and litigation and interest income. Our fee and other income contain earnings from certain transactions that are infrequent, and there is no guarantee that future transactions of the same nature, size or profitability will occur. Our ability to consummate such transactions, and the timing thereof, may depend largely upon factors outside the direct control of management. The earnings from these types of transactions in a particular period may not be indicative of the earnings that can be expected in future periods.

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COSTS AND EXPENSES

Cost of sales, product and services. During the three months ended June 30, 2009, cost of sales, product and services decreased 16.1% to $120.6 million, compared to $143.7 million during the three months June 30, 2008. This decrease corresponded to the decrease in sales of product and services in our technology sales business unit. Cost of sales, products and services is also affected by incentives from manufacturers, product mix and volume. Cost of sales, leased equipment increased 15.0% to $1.4 million during the three months ended June 30, 2009, compared to $1.2 million for the three months June 30, 2008. This increase corresponds to the increase in sales of leased equipment to non-lessee third parties in our financing business segment.

Direct lease costs. During the three months ended June 30, 2009, direct lease costs decreased 32.8% to $2.5 million as compared to $3.8 million during the prior fiscal year. The largest component of direct lease costs is depreciation expense for operating lease equipment. Our investment in operating leases decreased 33.6% to $20.3 million at June 30, 2009 compared to $30.5 million at June 30, 2008, primarily due to the sale of a number of lease schedules in the prior fiscal year and a reduction in the origination of operating leases.

Professional and other fees. During the three months ended June 30, 2009, professional and other fees decreased 28.6% to $1.8 million, compared to $2.5 million during the three months June 30, 2008. This decrease is primarily due to lower auditing, legal and outside consulting fees during the three months ended June 30, 2009.

Salaries and benefits. During the three months ended June 30, 2009, salaries and benefits expense decreased 7.9% to $17.9 million, compared to $19.5 million during the three months ended June 30, 2008. The decrease in salaries and benefits expense corresponds to a reduction in employees as we employed 657 people at June 30, 2009 as compared to 687 people at June 30, 2008. Where business needs were justified, we made a gradual and non-disruptive reduction in employees. In addition, commission expenses were reduced due to lower sales during the three months ended June 30, 2009.

We also provide our employees with a contributory 401(k) profit sharing plan. Employer contribution percentages are determined by us and are discretionary each year. The employer contributions vest over a four-year period. For the three months ended June 30, 2009 and 2008, our expenses for the plan were approximately $100 thousand and $114 thousand, respectively.

General and administrative expenses. During the three months ended June 30, 2009, general and administrative expenses decreased 7.4% to $3.5 million, as compared to $3.8 million in the three months ended June 30, 2008. This decrease is due to emphasis on eliminating unnecessary spending, such as travel and entertainment, efforts to enhance productivity and a reduction in depreciation.

Interest and financing costs. Interest and financing costs decreased 12.1% to $1.3 million during three months ended June 30, 2009, as compared to $1.5 million during the three months ended June 30, 2008. This decrease is primarily driven by lower interest costs and related expenses as a result of lower non-recourse note balances. Non-recourse notes payable decreased 11.7% to $75.1 million at June 30, 2009 as compared to $95.5 million at June 30, 2008.

Income taxes. Our provision for income taxes decreased $1.1 million to $1.4 million for the three months ended June 30, 2009 as compared to $2.6 million for the three months June 30, 2008. This decrease is due to lower earnings as compared to the prior period. Our effective income tax rates for the three months ended June 30, 2009 and 2008 were 43.1% and 41.1%, respectively.

Net Earnings. The foregoing resulted in net earnings of $1.9 million for the three months ended June 30, 2009, a decrease of 48.5% as compared to $3.7 million during the three months ended June 30, 2008.

Basic and fully diluted earnings per common share were both $0.23 for the three months ended June 30, 2009 as compared to $0.45 and $0.43 for both basic and fully diluted earnings per common share, respectively during the three months ended June 30, 2008.

Basic and diluted weighted average common shares outstanding for the three months ended June 30, 2009 were 8,147,685 and 8,415,531 respectively. For the three months ended June 30, 2008 the basic and diluted weighted average common shares outstanding were 8,253,552 and 8,580,659, respectively.

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 operating lease equipment, 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 sales business segment, finances its operations with funds generated from operations, and with a credit facility with GECDF, which is described in more detail below. 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 check, 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” on our Unaudited Condensed Consolidated Balance Sheets. Payments on the floor plan component are due on three specified dates each month, generally 40-45 days from the invoice date. At each due date, the payment is made by the accounts receivable component of our facility and reflected as “recourse notes payable” on our Unaudited Condensed Consolidated Balance Sheets. The borrowings and repayments under the floor plan component are reflected as “net borrowings (repayments) on floor plan facility” in the cash flows from financing activities section of our Unaudited Condensed Consolidated Statements of Cash Flows.

Most customer payments in our technology sales business segment are received by our lockboxes. Once payments are cleared, the monies in the lockbox accounts are automatically transferred from our banks to GECDF as payments on the accounts receivable facility at GECDF on a daily basis. To the extent the monies from the lockboxes are insufficient to cover the amount due under the accounts receivable facility, we make a cash payment to GECDF for the deficit. To the extent the monies received from the lockbox accounts exceed the amounts due under the accounts receivable facility, GECDF wires the excess funds to us. These payments from the accounts receivable component to the floor plan component and repayments from our lockboxes and repayments from our cash are reflected as “net (borrowings) repayments on recourse lines of credit” in the cash flows from the financing activities section of our Unaudited Condensed Consolidated Statements of Cash Flows. We engage in this payment structure in order to minimize our interest expense in connection with financing the operations of our technology sales business 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 the need for any additional sources of financing to fund operations, if demand for IT products further declines, our cash flows from operations may be substantially affected. Given the current environment within the global financial markets, management has maintained higher cash reserves to ensure adequate cash is available to fund our working capital requirements should the availability to the debt and equity markets be limited.

Cash Flows

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

	Three months ended June 30, 2009	2008
Net cash used in operating activities	$ (18,326)	$ (11,731)
Net cash used in investing activities	(124)	(1,226)
Net cash provided by financing activities	14,168	16,371
Effect of exchange rate changes on cash	(183)	11
Net (decrease)increase in cash and cash equivalents	$ (4,465)	$ 3,425

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Cash Flows from Operating Activities. Cash used in operating activities totaled $18.3 million during the three months ended June 30, 2009, compared to cash used in operations of $11.7 million during the three months ended June 30, 2008. Cash flows used in operations for the three months ended June 30, 2009 resulted primarily from $15.5 million in cash used by investment in direct financing and sales type leases—net. Our investment in direct financing and sales-type leases—net increased $6.3 million on our Unaudited Condensed Consolidated Balance Sheets (see Note 2, "Investment in Leases and Leased Equipment—net,") during the three months ended June 30, 2009. The repayment of $11.3 million in principal payments by our lessees directly to our lenders for certain leases secured by non-recourse debt had the effect of decreasing our cash flows from operating activities. Furthermore, there were increases in accounts receivable and inventory balances during the three months ended June 30, 2009. The increase in inventory is primarily attributable to several large projects that required us to stock inventory which will ship over future quarters. This inventory has been committed to by our customers. The increase in accounts receivable is consistent with the increase in sales of product and services over the previous quarter. These changes are partially offset by favorable changes in balances of accounts payable – equipment, accounts payable – trade and depreciation and amortization expenses.

Compared to the three months ended June 30, 2008, net cash used in operating activities increased $6.6 million, mostly due to a decrease in earnings, and increase in cash used in investment in direct financing and sales-type leases—net and inventory.

Cash Flows from Investing Activities. Cash used in investing activities is $0.1 million for the three months ended June 30, 2009. The proceeds from sale or disposal of operating lease equipment are offset by cash used in purchases of operating lease equipment and purchases of property and equipment. Compared to the three months June 30, 2008, cash used in investing activities decreased $1.1 million. This decrease was primarily due to a $0.9 million decrease in purchases of operating lease equipment and no cash used for an acquisition as compared to the three months June 30, 2008.

Cash Flows from Financing Activities. Cash provided by financing activities is $14.2 million, mostly driven by our borrowings on our floor plan facility. In addition, we generated $0.7 million from proceeds from the issuance of capital stock as a result of stock option exercises. These changes are partially offset by our repayments of non-recourse debt of $1.2 million. In addition, the repayment of $11.3 million in principal payments by our lessees directly to our lenders had the effect of decreasing our repayments of non-recourse debt, and is not reported in our cash flows from financing activities; however is reported on our schedule of non-cash investing and financing activities.

Compared to the three months June 30, 2008, cash provided by financing activities decreased $2.2 million primarily as a result of a decrease of $3.2 million from borrowings of non-recourse debt and floor plan facility.

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Liquidity and Capital Resources

Debt financing activities provide approximately 80% to 100% of the purchase price of the equipment we purchase for leases to our customers. Any balance of the purchase price (our equity investment in the equipment) must generally be financed by cash flows from our operations, the sale of the equipment leased to third parties, or other internal means. Although we expect that the credit quality of our leases and our residual return history will continue to allow us to obtain such financing, no assurances can be given that such financing will be available on acceptable terms, or at all. The financing necessary to support our leasing activities has principally been provided by non-recourse borrowings. Given the current market, we have been monitoring our exposure closely and conserving our capital. Historically, we have obtained recourse and non-recourse borrowings from banks and finance companies. We continue to be able to obtain financing through our traditional lending sources, however pricing has increased and has become more volatile. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed lease payments under the lease at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid from the lease payment, the lien is released and all further rental or sale proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk of each lease, and its only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease. At June 30, 2009, our lease-related non-recourse debt portfolio decreased 11.7% to $75.1 million, as compared to $85.0 million at March 31, 2009.

Whenever possible and desirable, we arrange for equity investment financing, which includes selling assets, including the residual portions, to third parties and financing the equity investment on a non-recourse basis. We generally retain customer control and operational services, and have minimal residual risk. We usually 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.

Accrued expenses and other liabilities includes deferred expenses, deferred revenue and amounts collected and payable, such as sales taxes and lease rental payments due to third parties. We had $24.9 million and $29.0 million of accrued expenses and other liabilities as of June 30, 2009 and March 31, 2009, respectively, a decrease of 14.5%. The decrease is primarily driven by decreases in deferred revenue and the accrual of other liabilities.

Credit Facility — Technology Business

Our subsidiary ePlus Technology, inc. has a financing facility from GECDF to finance its working capital requirements for inventories and accounts receivable. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. 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 June 30, 2009, the facility had an aggregate limit of the two components of $125 million with an accounts receivable sub-limit of $30 million. Availability under the GECDF facility may be limited by the asset value of equipment we purchase and the aging of our 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 total tangible net worth and subordinated debt, and maximum debt to tangible net worth ratio of ePlus Technology, inc. We were in compliance with these covenants as of June 30, 2009. 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; however, we do not expect these restrictions to have an impact on the ability of ePlus inc. to meet its cash obligations. Either party may terminate with 90 days' advance notice.

The facility provided by GECDF requires a guaranty of up to $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2009 as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology sales business and as an operational function of our accounts payable process. In light of the credit market condition, we have had discussions with GECDF recently to inquire about the strategic focus of their distribution finance unit. Pursuant to these discussions, we believe that we can continue to rely on the availability of this credit facility. Should the GECDF credit facility no longer be available, we believe we can increase our lines of credit with our vendors and utilize our cash for working capital.

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Floor Plan Component

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

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

Maximum Credit Limit at June 30, 2009	Balance as of June 30, 2009	Maximum Credit Limit at March 31, 2009	Balance as of March 31, 2009
$ 125,000	$ 57,182	$ 125,000	$ 45,127

Accounts Receivable Component

Included within the credit facility, ePlus Technology, inc. has an accounts receivable component from GECDF, which has a revolving line of credit. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our customers into a lockbox and our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our Unaudited Condensed Consolidated Balance Sheets. There was no outstanding balance at June 30, 2009 or March 31, 2009.

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

Maximum Credit Limit at June 30, 2009	Balance as of June 30, 2009	Maximum Credit Limit at March 31, 2009	Balance as of March 31, 2009
$ 30,000	$ —	$ 30,000	$ —

Credit Facility — Leasing Business

The National City $35 million credit facility expired on July 10, 2009. We allowed the expiration of this credit facility pursuant to its terms. Management believes that the expiration of this facility will not have a material impact on our leasing business or liquidity. We may, in the future, explore opportunities, if any, to supplement our liquidity with an additional credit facility.

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 Unaudited Condensed 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 June 30, 2009, we were not involved in any unconsolidated special purpose entity transactions.

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Adequacy of Capital Resources

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

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

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, major customers or vendors of ours.

Our quarterly results of operations are susceptible to fluctuations for a number of reasons, including, but not limited to, reduction in IT spending, our entry into the e-commerce market, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, and other factors. Quarterly operating results could also fluctuate as a result of our sale of equipment in our lease portfolio, at the expiration of a lease term or prior to such expiration, to a lessee or to a third party. Such sales of equipment may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. See Part I, Item 1A, “Risk Factors,” in our 2009 Annual Report.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Although a substantial portion of our liabilities are non-recourse, fixed-interest-rate instruments, we utilize our lines of credit and other financing facilities which are subject to fluctuations in short-term interest rates. These instruments, which are denominated in U.S. dollars, were entered into for other than trading purposes and, with the exception of amounts drawn under the GECDF 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 GECDF facility bear interest at a market-based variable rate. As of June 30, 2009, the aggregate fair value of our recourse borrowings approximated their carrying value.

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

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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," pursuant to Securities Exchange Act ("Exchange Act") Rule 13a-15(b). 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 time periods specified in the U.S. Securities and Exchange Commission'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 June 30, 2009.

Changes in Internal Controls

There have not been any changes in our internal control over financial reporting during the quarter ended June 30, 2009, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does 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

Cyberco Related Matters

We have been involved in several matters relating to a customer named Cyberco Holdings, Inc. ("Cyberco"). The Cyberco principals were perpetrating a scam, and at least five principals have pled guilty to criminal conspiracy and/or related charges, including bank fraud, mail fraud and money laundering. We have previously disclosed our losses relating to Cyberco, and are pursuing avenues to recover those losses. In September 2008, the Superior Court in the State of California, County of San Diego, dismissed a claim we filed against one of our lenders, Banc of America Leasing and Capital, LLC ("BoA"), relating to the Cyberco transaction, and we timely filed a Notice of Appeal. We are also the defendant in one Cyberco-related case, in which BoA filed a lawsuit against ePlus in the Circuit Court for Fairfax County, Virginia, on November 3, 2006, seeking to enforce a guaranty in which ePlus inc. guaranteed ePlus

Group's obligations to BoA relating to the Cyberco matter. ePlus Group has already paid to BoA $4.3 million, which was awarded to BoA in a prior lawsuit regarding the Cyberco matter. The suit against ePlus inc. seeks attorneys' fees BoA incurred in ePlus Group's appeal of BoA's suit against ePlus Group, expenses BoA incurred in Cyberco's bankruptcy proceedings, attorneys' fees incurred by BoA in defending the above-referenced case in the Superior Court in California, and all attorneys' fees and costs BoA has incurred arising in any way from the Cyberco matter. The trial in this suit has been stayed pending the outcome of ePlus Group's suit against BoA in California. We are vigorously defending the suit against us by BoA. We cannot predict the outcome of this suit.

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

Other Matters

On July 31, 2009, the United States District Court for the District of Columbia dismissed the shareholder derivative action which had been filed on January 18, 2007. The action, which related to stock option practices, named ePlus inc. as nominal defendant and personally named eight individual defendants who are directors and/or executive officers of ePlus inc. The action alleged violations of federal securities law, and various state law claims such as breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and sought monetary damages from the individual defendants and that we take certain corrective actions relating to option grants and corporate governance, and attorneys' fees.

In August 2006, the Audit Committee voluntarily contacted and advised the staff of the SEC that it had commenced an investigation of our stock option grants since our initial public offering in 1996 and that a restatement would be required. This restatement was included in our Form 10-K for the fiscal year ended March 31, 2006, and was filed with the SEC on August 16, 2007. The SEC opened an informal inquiry, and subsequently notified us by letter dated June 17, 2009 that its informal inquiry has been completed and that the Staff does not intend to recommend any enforcement action against us.

We may become party to various legal proceedings arising in the ordinary course of business including preference payment claims asserted in client bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations. Although we do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

Item 1A. Risk Factors

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

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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 three months ended June 30, 2009.

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, 2009 through April 30, 2009	937	$ 11.00	937	461,228 (2)

(1) All shares acquired were in open-market purchases.
(2) The share purchase authorization in place for the month ended April 30, 2009 had purchase limitations on the number of shares (500,000). As of April 30, 2009, the remaining authorized shares to be purchased is 461,228.

The timing and expiration date of the stock repurchase authorizations as well as an amendment to our current repurchase plan are included in Note 9, "Share Repurchase" to our Unaudited Condensed Consolidated Financial Statements included elsewhere in this report.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit Description
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).
32.0	Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. § 1350.

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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: August 10, 2009	/s/PHILLIP G. NORTON By: Phillip G. Norton, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Date: August 10, 2009	/s/ELAINE D. MARION By: Elaine D. Marion Chief Financial Officer (Principal Financial Officer)