EPLUS INC
Form 10-Q
February 03, 2017

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

FORM 10-Q

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

For the quarterly period ended December 31, 2016

OR

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

For the transition period from____ to ____ .

Commission file number: 1-34167

ePlus inc.

(Exact name of registrant as specified in its charter)

| Delaware | 54-1817218 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

13595 Dulles Technology Drive, Herndon, VA 20171-3413
(Address, including zip code, of principal executive offices)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 |

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

The number of shares of common stock outstanding as of January 31, 2017 was 7,080,467

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ePlus inc. AND SUBSIDIARIES


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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

- national and international political instability fostering uncertainty and volatility in the global economy including exposure to fluctuation in foreign currency rates, and downward pressure on prices;
- significant adverse changes in, reductions in, or loss of our largest customer or one or more of our large customers, or vendors;
- exposure to changes in, interpretations of, or enforcement trends in legislation and regulatory matters;
- the creditworthiness of our customers and our ability to reserve adequately for credit losses;
- reduction of vendor incentives provided to us;
- we offer a comprehensive set of solutions — integrating information technology (IT) product sales, third-party software assurance and maintenance, our advanced professional and managed services, our proprietary software, and financing, and encounter the following challenges, risks, difficulties and uncertainties:
  - managing a diverse product set of solutions in highly competitive markets with a number of key vendors;
  - increasing the total number of customers utilizing integrated solutions by up-selling within our customer base and gaining new customers;
  - adapting to meet changes in markets and competitive developments;
  - maintaining and increasing advanced professional services by retaining highly skilled personnel and vendor certifications;
  - increasing the total number of customers who utilize our managed services and professional services and continuing to enhance our managed services offerings to remain competitive in the marketplace;
  - maintaining our proprietary software and updating our technology infrastructure to remain competitive in the marketplace; and
  - reliance on third parties to perform some of our service obligations;
- changes in the IT industry and/or rapid changes in product offerings, including the proliferation of the cloud, infrastructure as a service and software as a service;
- our dependency on continued innovations in hardware, software, and services offerings by our vendors and our ability to partner with them;
- future growth rates in our core businesses;
- failure to comply with public sector contracts or applicable laws;
- changes to or loss of members of our senior management team and/or failure to successfully implement succession plans;
- our dependence on key personnel to maintain certain customer relationships, and our ability to hire, train, and retain sufficient qualified personnel;
- 

our ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration and other key strategies;

- a possible decrease in the capital spending budgets of our customers or a decrease in purchases from us;
- our contracts may not be adequate to protect us and our professional and liability insurance policies coverage may be insufficient to cover a claim;
- disruptions in our IT systems and data and audio communication networks;

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

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see Item 1A, "Risk Factors" and Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained elsewhere in this report, as well as other reports that we file with the Securities and Exchange Commission ("SEC").

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | As of December 31, 2016 | As of March 31, 2016 |
|---|---|---|
| ASSETS | (in thousands, except per share data) | |
| Current assets: | | |
| Cash and cash equivalents | $ 69,677 | $ 94,766 |
| Accounts receivable—trade, net | 297,460 | 234,628 |
| Accounts receivable—other, net | 34,183 | 41,771 |
| Inventories—net | 111,076 | 33,343 |
| Financing receivables—net, current | 65,945 | 56,448 |
| Deferred costs | 6,418 | 6,371 |
| Other current assets | 4,035 | 10,649 |
| Total current assets | 588,794 | 477,976 |
| Financing receivables and operating leases—net | 74,490 | 75,906 |
| Property, equipment and other assets | 11,704 | 8,644 |
| Goodwill and other intangible assets—net | 61,690 | 54,154 |
| TOTAL ASSETS | $ 736,678 | $ 616,680 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | $ 121,562 | $ 76,780 |
| Accounts payable—floor plan | 120,854 | 121,893 |
| Salaries and commissions payable | 17,412 | 14,981 |
| Deferred revenue | 63,665 | 18,344 |
| Recourse notes payable—current | 1,605 | 2,288 |
| Non-recourse notes payable—current | 41,785 | 26,042 |
| Other current liabilities | 15,842 | 13,118 |
| Total current liabilities | 382,725 | 273,446 |
| Recourse notes payable—long term | - | 1,054 |
| Non-recourse notes payable—long term | 10,608 | 18,038 |
| Deferred tax liability—net | 3,075 | 3,001 |
| Other liabilities | 6,475 | 2,263 |
| TOTAL LIABILITIES | 402,883 | 297,802 |

COMMITMENTS AND CONTINGENCIES (Note 8)

STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| Preferred stock, $.01 per share par value; 2,000 shares authorized; none issued or outstanding | - | - |
| Common stock, $.01 per share par value; 25,000 shares authorized;13,310 issued and 7,080 outstanding at December 31, 2016 and 13,237 issued and 7,365 outstanding at March 31, 2016 | 133 | 132 |
| Additional paid-in capital | 122,031 | 117,511 |
| Treasury stock, at cost, 6,230 and 5,872 shares at December 31, 2016 and March 31, 2016, respectively | (158,948) | (129,518) |
| Retained earnings | 371,290 | 331,224 |
| Accumulated other comprehensive income—foreign currency translation adjustment | (711) | (471) |
| Total Stockholders' Equity | 333,795 | 318,878 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 736,678 | $ 616,680 |

*See Notes to Unaudited Condensed Consolidated Financial Statements.*

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (in thousands, except per share data) | | | |
| Net sales | $326,657 | $298,644 | $ 996,622 | $ 904,796 |
| Cost of sales | 252,871 | 234,584 | 773,239 | 709,685 |
| Gross profit | 73,786 | 64,060 | 223,383 | 195,111 |
| Professional and other fees | 1,397 | 1,882 | 4,918 | 4,913 |
| Salaries and benefits | 42,385 | 37,372 | 124,479 | 108,326 |
| General and administrative expenses | 6,378 | 5,434 | 20,424 | 17,390 |
| Depreciation and amortization | 1,910 | 1,331 | 5,408 | 3,739 |
| Interest and financing costs | 409 | 396 | 1,158 | 1,371 |
| Operating expenses | 52,479 | 46,415 | 156,387 | 135,739 |
| Operating income | 21,307 | 17,645 | 66,996 | 59,372 |
| Other income | - | - | 380 | - |
| Earnings before tax | 21,307 | 17,645 | 67,376 | 59,372 |
| Provision for income taxes | 8,687 | 7,348 | 27,310 | 24,582 |
| Net earnings | $12,620 | $10,297 | $ 40,066 | $ 34,790 |
| Net earnings per common share—basic | $1.83 | $1.41 | $ 5.77 | $ 4.79 |
| Net earnings per common share—diluted | $1.81 | $1.40 | $ 5.71 | $ 4.74 |
| Weighted average common shares outstanding—basic | 6,896 | 7,280 | 6,946 | 7,260 |
| Weighted average common shares outstanding—diluted | 6,960 | 7,329 | 7,013 | 7,336 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (amounts in thousands) | | | |
| NET EARNINGS | $12,620 | $10,297 | $40,066 | $34,790 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX: | | | | |
| Foreign currency translation adjustments | (145) | (139) | (240) | (273) |
| Other comprehensive income (loss) | (145) | (139) | (240) | (273) |
| TOTAL COMPREHENSIVE INCOME | $12,475 | $10,158 | $39,826 | $34,517 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Cash Flows From Operating Activities: | | |
| Net earnings | $ 40,066 | $ 34,790 |
| | | |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 8,758 | 13,020 |
| Reserve for credit losses, inventory obsolescence and sales returns | 926 | (91) |
| Share-based compensation expense | 4,520 | 4,210 |
| Deferred taxes | 89 | - |
| Payments from lessees directly to lenders—operating leases | (1,831) | (3,587) |
| Gain on disposal of property, equipment and operating lease equipment | (3,742) | (2,621) |
| Gain on sale of financing receivables | (3,968) | (5,439) |
| Other | 227 | 224 |
| Changes in: | | |
| Accounts receivable—trade | (57,732) | (31,692) |
| Accounts receivable—other | (4,232) | (1,176) |
| Inventories | (77,422) | (5,643) |
| Financing receivables—net | 17,797 | (10,670) |
| Deferred costs, other intangible assets and other assets | 1,838 | 5,888 |
| Accounts payable | 53,208 | (5,912) |
| Salaries and commissions payable, deferred revenue and other liabilities | 51,200 | (9,018) |
| Net provided by (cash used) in operating activities | $ 29,702 | $ (17,717) |
| | | |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of property, equipment and operating lease equipment | 6,380 | 5,349 |
| Purchases of property, equipment and operating lease equipment | (7,300) | (17,008) |
| Purchases of assets to be leased or financed | (5,897) | (10,828) |
| Issuance of financing receivables | (114,671) | (102,612) |
| Repayments of financing receivables | 44,091 | 49,230 |
| Proceeds from sale of financing receivables | 39,857 | 48,174 |
| Cash used in acquisitions, net of cash acquired | (9,500) | (16,649) |
| Net cash used in investing activities | $ (47,040) | $ (44,344) |

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Cash Flows From Financing Activities: | | |
| Borrowings of non-recourse and recourse notes payable | 34,020 | $ 27,865 |
| Repayments of non-recourse and recourse notes payable | (5,412) | (254) |
| Repurchase of common stock | (30,493) | (2,475) |
| Dividends paid | - | (80) |
| Payments of contingent consideration | (718) | (1,158) |
| Net borrowings (repayments) on floor plan facility | (5,602) | 28,581 |
| Net cash provided by (used in) financing activities | (8,205) | 52,479 |
| Effect of exchange rate changes on cash | 454 | (26) |
| Net Decrease in Cash and Cash Equivalents | (25,089) | (9,608) |
| Cash and Cash Equivalents, Beginning of Period | 94,766 | 76,175 |
| Cash and Cash Equivalents, End of Period | $ 69,677 | $ 66,567 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for interest | $ 38 | $ 65 |
| Cash paid for income taxes | $ 23,381 | $ 26,463 |
| Schedule of Non-Cash Investing and Financing Activities: | | |
| Investing Activities | | |
| Proceeds from sale of property, equipment, and operating lease equipment | $ 429 | $ 7,993 |
| Purchase of property, equipment, and operating lease equipment | $ (2,442) | $ (11,985) |
| Purchase of assets to be leased or financed | $ (12,700) | $ (8,554) |
| Issuance of financing receivables | $ (110,120) | $ (91,022) |
| Repayment of financing receivables | $ 16,454 | $ 12,357 |
| Proceeds from sale of financing receivables | $ 104,430 | $ 75,584 |
| Financing Activities | | |
| Borrowing of non-recourse and recourse notes payable | $ 33,651 | $ 42,840 |
| Repayments of non-recourse and recourse notes payable | $ (20,438) | $ (22,292) |
| Vesting of share-based compensation | $ 7,982 | $ 7,743 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | Additional Paid-In | Treasury | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Stock | Earnings | Income | Total |
| Balance, April 1, 2016 | 7,365 | $ 132 | $ 117,511 | $ (129,518) | $ 331,224 | $ (471) | $ 318,878 |
| Issuance of restricted stock awards | 73 | 1 | - | - | - | - | 1 |
| Share-based compensation | - | - | 4,520 | - | - | - | 4,520 |
| Repurchase of common stock | (358) | - | - | (29,430) | - | - | (29,430) |
| Net earnings | - | - | - | - | 40,066 | - | 40,066 |
| Foreign currency translation adjustment | - | - | - | - | - | (240) | (240) |
| Balance, December 31, 2016 | 7,080 | $ 133 | $ 122,031 | $ (158,948) | $ 371,290 | $ (711) | $ 333,795 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

INTERIM FINANCIAL STATEMENTS — The unaudited condensed consolidated financial statements for the three and nine months ended December 31, 2016 and 2015 were prepared by us, without audit, and include all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations, changes in comprehensive income and cash flows for such periods. Operating results for the three and nine months ended December 31, 2016 and 2015 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending March 31, 2017 or any other future period. These unaudited condensed consolidated financial statements do not include all disclosures required by the accounting principles generally accepted in the United States ("U.S. GAAP") for annual financial statements. Our audited consolidated financial statements are contained in our annual report on Form 10-K for the year ended March 31, 2016 ("2016 Financial Statements"), which should be read in conjunction with these interim condensed consolidated financial statements.

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

The notes to the consolidated financial statements contained in the 2016 Financial Statements include additional discussion of the significant accounting policies and estimates used in the preparation of our consolidated financial statements. There have been no material changes to our significant accounting policies and estimates during the nine months ended December 31, 2016.

DEFERRED COSTS AND DEFERRED REVENUES — Deferred costs include internal and third party costs associated with deferred revenue arrangements. Deferred revenue includes payments received from customers in advance of delivering equipment and software or performing professional, managed and hosting services and amounts deferred when any of the other revenue recognition criteria have not been met. At December 31, 2016, total deferred costs and revenues were $9.4 million and $67.3 million, respectively, compared to $8.2 million and $20.2 million, respectively, as of March 31, 2016. The increase in deferred revenue is primarily due to prepayments by a customer for equipment that we expect to deliver in the next three to six months.

CONCENTRATIONS OF RISK — A substantial portion of our sales of product and services are from sales of Cisco Systems, Hewlett Packard Enterprise ("HPE"), and NetApp products, which represented approximately 45%, 6% and 6% and 49%, 6% and 5%, respectively, for the three and nine months ended December 31, 2016. Sales of Cisco Systems, Hewlett Packard ("HP"), and NetApp products represented approximately 48%, 6%, and 7%, and 49%, 8%, and 5%, respectively, for the three and nine months ended December 31, 2015. Any changes in our vendors' ability to provide products or incentive programs could have a material adverse effect on our business, results of operations and financial condition.

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2. RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS — In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Stock Compensation. This update simplifies several aspects of the accounting for share-based payment transactions. As permitted, we elected to early adopt this update during the quarter ended June 30, 2016. The amendments requiring recognition of excess tax benefits and deficiencies in the income statement have been applied prospectively resulting in a benefit in the nine months ended December 31, 2016 of $0.5 million, or $0.07 per share. We elected to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using a retrospective transition method, and as a result, $1.2 million of excess tax benefits related to share-based awards which were previously classified as cash flows from financing activities in the nine months ended December 31, 2015 have been reclassified as cash flows from operating activities. As part of adopting this update, we additionally elected as an accounting policy to account for forfeitures of share-based awards when they occur. As we had previously estimated the forfeiture rate to be zero, there is no cumulative-effect adjustment to retained earnings as a result of our election.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede all current U.S. GAAP on this topic. The FASB subsequently issued ASU 2016-08, Principal versus Agent Considerations, ASU 2016-10, Identifying Performance Obligations and Licensing, ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, and ASU 2016-20, Technical Corrections and Improvements to Topic 606, in March 2016, April 2016, May 2016, and December 2016 respectively, to amend the guidance in ASU 2014-09. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of ASU 2014-09 by one year. Including the one-year deferral, these updates become effective for us in our quarter ending June 30, 2018, and early adoption is permitted for us in our quarter ending June 30, 2017. The update can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the impact of this update on our financial statements and have not yet selected our planned transition approach.

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update requires adoption under a modified retrospective approach and becomes effective for us in our quarter ending June 30, 2020. Early adoption is permitted beginning in our quarter ending June 30, 2019. We are currently evaluating the impact of this update on our financial statements.

3. FINANCING RECEIVABLES AND OPERATING LEASES

Our financing receivables and operating leases consist of assets that we finance for our customers, which we manage as a portfolio of investments. Equipment financed for our customers is accounted for as investments in direct financing, sales-type or operating leases in accordance with Accounting Standards Codification ("ASC") Topic 840, Leases. We also finance third-party software, maintenance, and services for our customers, which are classified as

notes receivables. Our notes receivables are interest bearing and are often due over a period of time that corresponds with the terms of the leased products.



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FINANCING RECEIVABLES—NET

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

| December 31, 2016 | Notes Receivables | Lease-Related Receivables | Total Financing Receivables |
|---|---|---|---|
| Minimum payments | $ 53,167 | $ 71,343 | $ 124,510 |
| Estimated unguaranteed residual value (1) | - | 18,069 | 18,069 |
| Initial direct costs, net of amortization (2) | 465 | 518 | 983 |
| Unearned income | - | (7,017) | (7,017) |
| Reserve for credit losses (3) | (3,508) | (778) | (4,286) |
| Total, net | $ 50,124 | $ 82,135 | $ 132,259 |
| Reported as: | | | |
| Current | $ 32,269 | $ 33,676 | $ 65,945 |
| Long-term | 17,855 | 48,459 | 66,314 |
| Total, net | $ 50,124 | $ 82,135 | $ 132,259 |

(1) Includes estimated unguaranteed residual values of $11,932 thousand for direct financing leases, which have been sold and accounted for as sales.

(2) Initial direct costs are shown net of amortization of $665 thousand.

(3) For details on reserve for credit losses, refer to Note 5, “Reserves for Credit Losses.”

| March 31, 2016 | Notes Receivables | Lease-Related Receivables | Total Financing Receivables |
|---|---|---|---|
| Minimum payments | $ 44,442 | $ 66,303 | $ 110,745 |
| Estimated unguaranteed residual value (1) | - | 12,693 | 12,693 |
| Initial direct costs, net of amortization (2) | 312 | 475 | 787 |
| Unearned income | - | (5,543) | (5,543) |
| Reserve for credit losses (3) | (3,381) | (685) | (4,066) |
| Total, net | $ 41,373 | $ 73,243 | $ 114,616 |
| Reported as: | | | |
| Current | $ 24,962 | $ 31,486 | $ 56,448 |
| Long-term | 16,411 | 41,757 | 58,168 |
| Total, net | $ 41,373 | $ 73,243 | $ 114,616 |

(1) Includes estimated unguaranteed residual values of $6,722 thousand for direct financing leases which have been sold and accounted for as sales.

(2) Initial direct costs are shown net of amortization of $612 thousand.

(3) For details on reserve for credit losses, refer to Note 5, “Reserves for Credit Losses.”

OPERATING LEASES—NET

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

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Cost of equipment under operating leases | $ 17,062 | $ 36,635 |
| Accumulated depreciation | (8,886) | (18,897) |
| Investment in operating lease equipment—net (1) | $ 8,176 | $ 17,738 |

(1) These totals include estimated unguaranteed residual values of $928 thousand and $3,417 thousand as of December 31, 2016 and March 31, 2016, respectively.

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TRANSFERS OF FINANCIAL ASSETS

We enter into arrangements to transfer the contractual payments due under financing receivables and operating lease agreements, which are accounted for as sales or secured borrowings in accordance with Codification Topic 860, Transfers and Servicing. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. As of December 31, 2016 and March 31, 2016 we had financing receivables of $54.9 million and $36.1 million, respectively, and operating leases of $6.7 million and $13.9 million, respectively, which were collateral for non-recourse notes payable. See Note 7, "Notes Payable and Credit Facility."

For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which are presented within net sales in the consolidated statement of operations. During the three months ended December 31, 2016 and 2015, we recognized net gains of $0.9 million and $1.4 million, respectively, and total proceeds from these sales were $55.8 million and $54.1 million, respectively. During the nine months ended December 31, 2016 and 2015, we recognized net gains of $4.1 million and $5.4 million, respectively. The total proceeds from these sales were $185.4 million and $162.7 million for the nine months ended December 31, 2016 and 2015, respectively.

For certain assignments of financial assets, we retain a servicing obligation. For assignments accounted for as sales, we allocate a portion of the proceeds to deferred revenues, which is recognized as we perform the services. In a limited number of such sales, we indemnified the assignee in the event that the lessee elected to early terminate the lease. As of December 31, 2016, our maximum potential future payments related to such guarantees is $1.2 million. We believe the possibility of making any payments to be remote.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

| | December 31, 2016 | | | March 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization / Impairment Loss | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization / Impairment Loss | Net Carrying Amount |
| Goodwill | $58,145 | $ (8,673) | $49,472 | $50,824 | $ (8,673) | $42,151 |
| Customer relationships & other intangibles | 22,818 | (11,640) | 11,178 | 20,401 | (9,193) | 11,208 |
| Capitalized software development | 3,247 | (2,207) | 1,040 | 2,709 | (1,914) | 795 |
| Total | $84,210 | $ (22,520) | $61,690 | $73,934 | $ (19,780) | $54,154 |

GOODWILL

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets that are individually identified and separately recognized in business combinations. All of our goodwill as of December 31, 2016 and March 31, 2016 is related to our technology reportable segment, which we also determined to be one reporting unit.

Goodwill increased by $7.3 million from March 31, 2016 to December 31, 2016 due to the addition of $7.6 million from our acquisition of certain assets and assumption of certain liabilities of the IT Services equipment and integration business of Consolidated Communications Holdings, Inc. (“Consolidated IT Services”) in December, 2016, partially offset by $0.3 million due to foreign currency translation. See Note 15, “Business Combinations” for additional information.

We performed our annual test for impairment for fiscal year 2017 as of October 1, 2016. We elected to bypass the qualitative assessment of goodwill and estimate the fair value of our reporting units. The fair value of our technology reporting unit substantially exceeded its carrying value as of October 1, 2016. Our conclusions would not be impacted by a ten percent change in our estimate of the fair value of the reporting unit.

We performed our annual test for impairment for fiscal year 2016 as of October 1, 2015. We performed a qualitative assessment for goodwill and concluded that the fair value of our reporting units, more likely than not, exceeded their respective carrying values as of October 1, 2015.

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OTHER INTANGIBLE ASSETS

Customer relationships and capitalized software development costs are amortized over an estimated useful life, which is generally between 3 to 7 years. Trade names and trademarks are amortized over an estimated useful life of 10 years.

Total amortization expense for other intangible assets was $1.1 million and $0.8 million for the three months and $3.4 million and $2.1 million for the nine months ended December 31, 2016 and 2015, respectively.

5. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses for the nine months ended December 31, 2016 and 2015 were as follows (in thousands):

| | Accounts Receivable | Notes Receivable | Lease-Related Receivables | Total |
|---|---|---|---|---|
| Balance April 1, 2016 | $ 1,127 | $ 3,381 | $ 685 | $ 5,193 |
| Provision for credit losses | 229 | 139 | 93 | 461 |
| Write-offs and other | (32) | (12) | - | (44) |
| Balance December 31, 2016 | $ 1,324 | $ 3,508 | $ 778 | $ 5,610 |

| | Accounts Receivable | Notes Receivable | Lease-Related Receivables | Total |
|---|---|---|---|---|
| Balance April 1, 2015 | $ 1,169 | $ 3,573 | $ 881 | $ 5,623 |
| Provision for credit losses | 12 | 7 | (50) | (31) |
| Write-offs and other | (119) | - | - | (119) |
| Balance December 31, 2015 | $ 1,062 | $ 3,580 | $ 831 | $ 5,473 |

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

| | December 31, 2016 | | March 31, 2016 | |
|---|---|---|---|---|
| | Notes Receivable | Lease-Related Receivables | Notes Receivable | Lease-Related Receivables |
| Reserves for credit losses: | | | | |
| Ending balance: collectively evaluated for impairment | $ 406 | $ 655 | $ 279 | $ 562 |
| Ending balance: individually evaluated for impairment | 3,102 | 123 | 3,102 | 123 |
| Ending balance | $ 3,508 | $ 778 | $ 3,381 | $ 685 |
| Minimum payments: | | | | |
| Ending balance: collectively evaluated for impairment | $ 50,016 | $ 71,201 | $ 41,340 | $ 66,161 |
| Ending balance: individually evaluated for impairment | 3,151 | 142 | 3,102 | 142 |
| Ending balance | $ 53,167 | $ 71,343 | $ 44,442 | $ 66,303 |

As of December 31, 2016 and March 31, 2016 we had a balance outstanding of $3.2 million for a customer in bankruptcy which is in a non-accrual status. We place receivables on non-accrual status when events, such as a customer's declaring bankruptcy, occur that indicate a receivable will not be collectable. We charge off uncollectable financing receivables when we stop pursuing collection.

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The age of the recorded minimum lease payments and net credit exposure associated with our investment in direct financing and sales-type leases that are past due disaggregated based on our internally assigned credit quality rating ("CQR") were as follows as of December 31, 2016 and March 31, 2016 (in thousands):

| | 31-60 Days Past Due | 61-90 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current | Unbilled Minimum Lease Payments | Total Minimum Lease Payments | Unearned Income | Non-Recourse Notes Payable | Net Credit Exposure |
|---|---|---|---|---|---|---|---|---|---|---|
| December 31, 2016 | | | | | | | | | | |
| High CQR | $ 163 | $ 49 | $ 98 | $ 310 | $ 137 | $ 45,570 | $ 46,017 | $ (3,466 ) | $ (21,532 ) | $ 21,019 |
| Average CQR | 44 | 25 | 96 | 165 | 43 | 24,976 | 25,184 | (1,667 ) | (12,684 ) | 10,833 |
| Low CQR | - | - | 142 | 142 | - | - | 142 | (19 ) | - | 123 |
| Total | $ 207 | $ 74 | $ 336 | $ 617 | $ 180 | $ 70,546 | $ 71,343 | $ (5,152 ) | $ (34,216 ) | $ 31,975 |
| March 31, 2016 | | | | | | | | | | |
| High CQR | $ 575 | $ 52 | $ 94 | $ 721 | $ 984 | $ 46,157 | $ 47,862 | $ (2,705 ) | $ (22,914 ) | $ 22,243 |
| Average CQR | 15 | 17 | 78 | 110 | 159 | 18,030 | 18,299 | (1,387 ) | (8,714 ) | 8,198 |
| Low CQR | - | - | 142 | 142 | - | - | 142 | (19 ) | - | 123 |
| Total | $ 590 | $ 69 | $ 314 | $ 973 | $ 1,143 | $ 64,187 | $ 66,303 | $ (4,111 ) | $ (31,628 ) | $ 30,564 |

The age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows as December 31, 2016 and March 31, 2016 (in thousands):

| | 31-60 Days Past Due | 61-90 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current | Unbilled Notes Receivable | Total Notes Receivable | Non-Recourse Notes Payable | Net Credit Exposure |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2016 | | | | | | | | | |
| High CQR | $ 1,369 | $ 312 | $ 827 | $ 2,508 | $ 1,244 | $ 28,206 | $ 31,958 | $ (15,330 ) | $ 16,628 |
| Average CQR | 157 | 10 | - | 167 | 920 | 16,971 | 18,058 | (12,640 ) | 5,418 |
| Low CQR | - | - | 3,151 | 3,151 | - | - | 3,151 | - | 3,151 |
| Total | $ 1,526 | $ 322 | $ 3,978 | $ 5,826 | $ 2,164 | $ 45,177 | $ 53,167 | $ (27,970 ) | $ 25,197 |
| March 31, 2016 | | | | | | | | | |
| High CQR | $ 399 | $ 305 | $ 2,168 | $ 2,872 | $ 301 | $ 24,092 | $ 27,265 | $ (11,644 ) | $ 15,621 |
| Average CQR | - | - | - | - | 202 | 13,873 | 14,075 | (9,942 ) | 4,133 |
| Low CQR | - | - | 3,102 | 3,102 | - | - | 3,102 | - | 3,102 |
| Total | $ 399 | $ 305 | $ 5,270 | $ 5,974 | $ 503 | $ 37,965 | $ 44,442 | $ (21,586 ) | $ 22,856 |

We estimate losses on our net credit exposure to be between 0% - 5% for customers with highest CQR, as these customers are investment grade or the equivalent of investment grade. We estimate losses on our net credit exposure

to be between 2% - 15% for customers with average CQR, and between 15% - 100% for customers with low CQR, which includes customers in bankruptcy.

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6. PROPERTY, EQUIPMENT, OTHER ASSETS AND LIABILITIES

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

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Other current assets: | | |
| Deposits & funds held in escrow | $485 | $3,116 |
| Prepaid assets | 2,773 | 6,683 |
| Other | 777 | 850 |
| Total other current assets | $4,035 | $10,649 |
| | | |
| Other assets: | | |
| Deferred costs | $2,979 | $1,831 |
| Property and equipment, net | 6,945 | 6,266 |
| Other | 1,780 | 547 |
| Total other assets - long term | $11,704 | $8,644 |

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Other current liabilities: | | |
| Accrued expenses | $6,969 | $7,109 |
| Accrued income taxes payable | 1,093 | - |
| Other | 7,780 | 6,009 |
| Total other current liabilities | $15,842 | $13,118 |
| | | |
| Other liabilities: | | |
| Deferred revenue | $3,599 | $1,866 |
| Other | 2,876 | 397 |
| Total other liabilities - long term | $6,475 | $2,263 |

7. NOTES PAYABLE AND CREDIT FACILITY

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

| | December 31, 2016 | March 31, 2016 |
|---|---|---|
| Recourse notes payable with interest rates ranging from 2.75% and 4.13% at December 31, 2016 and ranging from 2.70% and 4.13%at March 31, 2016. | | |
| Current | $ 1,605 | $ 2,288 |
| Long-term | - | 1,054 |
| Total recourse notes payable | $ 1,605 | $ 3,342 |
| | | |
| Non-recourse notes payable secured by financing receivables and investments in operating leases with interest rates ranging from 2.0% to 7.50% at December 31, 2016 and ranging from 1.70% to 8.50% as of March 31, 2016. | | |
| Current | $ 41,785 | $ 26,042 |
| Long-term | 10,608 | 18,038 |
| Total non-recourse notes payable | $ 52,393 | $ 44,080 |

Principal and interest payments on non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the customer under the leases or notes receivable that collateralize the notes payable. The weighted average interest rate for our non-recourse notes payable was 3.38% and 3.13%, as of December 31, 2016 and March 31, 2016, respectively. The weighted average interest rate for our recourse notes payable was 3.24%, as of December 31, 2016 and March 31, 2016. Under recourse financing, in the event of a default by a customer, the lender has recourse to the customer, the assets serving as collateral, and us. Under non-recourse financing, in the event of a default by a customer, the lender generally only has recourse against the customer, and the assets serving as collateral, but not against us.

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Our technology segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or ("WFCDF"). This facility provides short-term capital for our technology segment. There are two components of the WFCDF credit facility: (1) a floor plan component, and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $120.9 million and $121.9 million as of December 31, 2016 and March 31, 2016, respectively. Under the accounts receivable component, we had no outstanding balances as of December 31, 2016 and March 31, 2016.

As of December 31, 2016, the facility agreement had an aggregate limit of the two components of $250 million, and the accounts receivable component had a sub-limit of $30 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one half percent.

The credit facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as receivables and inventory. Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2016. In addition, the facility restricts the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans or advances with certain exceptions for dividends to ePlus inc. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also includes that other operational reports be provided on a regular basis. Either party may terminate with 90 days' advance notice. We are not, and do not believe that we are reasonably likely to be, in breach of the WFCDF credit facility. In addition, we do not believe that the covenants of the WFCDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by WFCDF requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2016, as required. The loss of the WFCDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

Fair Value

As of December 31, 2016 and March 31, 2016, the fair value of our long-term recourse and non-recourse notes payable approximated their carrying value.

8. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are not currently a party to any legal proceedings with loss contingencies that are expected to be material. From time to time, we may be or have been a plaintiff, or may be or have been named as a defendant, in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. Legal proceedings which may arise in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, tax audits, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment-related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. We attempt to

ameliorate the effect of potential litigation through insurance coverage and contractual protections such as rights to indemnifications and limitations of liability. 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, however, 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.

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During the nine months ended December 31, 2016, we received $380 thousand related to the dynamic random access memory ("DRAM") class action lawsuit, which claimed that manufacturers fixed the price for DRAM, which was included within other income on our unaudited consolidated statement of operations.

Contingencies Related to Third-Party Review

From time to time, we are subject to potential claims and assessments from third parties. We are also subject to various governmental, customer and partner audits. We continually assess whether or not such claims have merit and warrant accrual. Where appropriate, we accrue estimates of anticipated liabilities in our consolidated financial statements. Such estimates are subject to change and may affect our results of operations and our cash flows.

9. EARNINGS PER SHARE

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

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed on our consolidated statements of operations for the three and nine months ended December 31, 2016 and 2015 (in thousands, except per share data):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net earnings attributable to common shareholders - basic and diluted | $ 12,620 | $ 10,297 | $ 40,066 | $ 34,790 |
| Basic and diluted common shares outstanding: | | | | |
| Weighted average common shares outstanding — basic | 6,896 | 7,280 | 6,946 | 7,260 |
| Effect of dilutive shares | 64 | 49 | 67 | 76 |
| Weighted average shares common outstanding — diluted | 6,960 | 7,329 | 7,013 | 7,336 |
| Earnings per common share - basic | $ 1.83 | $ 1.41 | $ 5.77 | $ 4.79 |
| Earnings per common share - diluted | $ 1.81 | $ 1.40 | $ 5.71 | $ 4.74 |

Stock Split

On February 2, 2017, our Board of Directors declared a two-for-one stock split effected in the form of a stock dividend. The share distribution will occur March 31, 2017. All references made to share or per share amounts in the accompanying unaudited condensed consolidated financial statements and applicable disclosures are presented on a pre-split basis. As a result of the stock split, all historical per share data and number of shares outstanding presented in future financial statements will be retroactively adjusted.

The following table provides pro forma earnings per share, giving retroactive effect to the stock split (in thousands, except per share data):

| | Three Months Ended | Nine Months Ended |
|---|---|---|

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| Earnings per common share: | | | | |
| Basic — pro forma | $ 0.92 | $ 0.71 | $ 2.88 | $ 2.40 |
| Diluted — pro forma | $ 0.91 | $ 0.70 | $ 2.86 | $ 2.37 |
| Weighted average common shares outstanding: | | | | |
| Basic — pro forma | 13,791 | 14,561 | 13,891 | 14,519 |
| Diluted — pro forma | 13,920 | 14,659 | 14,026 | 14,672 |

10. STOCKHOLDERS' EQUITY

On August 18, 2016, our board of directors authorized the Company to repurchase up to 500,000 shares of its outstanding common stock over a 12-month period beginning on August 19, 2016 through August 18, 2017. The plan authorized purchases to be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes.

During the nine months ended December 31, 2016, we purchased 328,481 shares of our outstanding common stock at an average cost of $81.62 per share for a total purchase price of $26.8 million under the share repurchase plan. We also purchased 29,736 shares of common stock at a value of $2.6 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

During the nine months ended December 31, 2015, we did not purchase any shares of our outstanding common stock under the share repurchase plan; however, we did purchase 30,447 shares of common stock at a value of $2.5 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

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Since the inception of our initial repurchase program on September 20, 2001 to December 31, 2016, we have repurchased approximately 6.0 million shares of our outstanding common stock at an average cost of $24.44 per share for a total purchase price of $147.3 million.

11. SHARE-BASED COMPENSATION

Share-Based Plans

As of December 31, 2016, we had share-based awards outstanding under the following plans: (1) the 2008 Non-Employee Director Long-Term Incentive Plan ("2008 Director LTIP"), and (2) the 2012 Employee Long-Term Incentive Plan ("2012 Employee LTIP"). Both of the share-based plans define fair market value as the previous trading day's closing price when the grant date falls on a date the stock was not traded.

Restricted Stock Activity

For the nine months ended December 31, 2016, we granted 5,692 restricted shares under the 2008 Director LTIP, and 67,269 restricted shares under the 2012 Employee LTIP. For the nine months ended December 31, 2015, we granted 6,383 restricted shares under the 2008 Director LTIP, and 118,974 restricted shares under the 2012 Employee LTIP. A summary of the restricted shares is as follows:

| | Number of Shares | Weighted Average Grant-date Fair Value |
|---|---|---|
| Nonvested April 1, 2016 | 203,828 | $ 72.33 |
| Granted | 72,961 | $ 86.24 |
| Vested | (90,356 ) | $ 65.99 |
| Forfeited | (349 ) | $ 76.87 |
| Nonvested December 31, 2016 | 186,084 | $ 80.86 |

Upon each vesting period of the restricted stock awards, employees are subject to minimum tax withholding obligations. Under the 2012 Employee LTIP, we may purchase a sufficient number of shares due to the participant to satisfy their minimum tax withholding on employee stock awards. For the nine months ended December 31, 2016, the Company had withheld 29,736 shares of common stock at a value of $2.6 million, which was included in treasury stock.

Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period. There are no additional conditions for vesting other than service conditions. During each of the three months ended December 31, 2016 and 2015, we recognized $1.5 million of total share-based compensation expense. During the nine months ended December 31, 2016 and 2015, we recognized $4.5 million and $4.2 million, respectively, of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was $11.8 million as of December 31, 2016, which will be fully recognized over the next forty-two (42) months.

We also provide our employees with a contributory 401(k) plan. Employer contribution percentages are determined by us and are discretionary each year. The employer contributions vest pro-ratably over a four-year service period by the

employees, after which all employer contributions will be fully vested. For the three months ended December 31, 2016 and 2015 our estimated contribution expense for the plan were $0.5 million and $0.4 million, respectively. For the nine months ended December 31, 2016 and 2015, our estimated contribution expense for the plan was $1.2 million and $1.1 million, respectively.

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12. INCOME TAXES

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

We recognize interest and penalties for uncertain tax positions. As of December 31, 2016 our gross liability related to uncertain tax positions was $72 thousand. At December 31, 2016 if the unrecognized tax benefits of $72 thousand were to be recognized, including the effect of interest, penalties and federal tax benefit, the impact would be $106 thousand.

We also recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. We did not recognize any additional penalties in the three and nine month periods ended December 31, 2016. We had $51 thousand and $47 thousand accrued for the payment of interest at December 31, 2016 and 2015, respectively.

As permitted by the recently issued ASU 2016-09, Stock Compensation, we elected to early adopt this update during the quarter ended June 30, 2016. The amendments requiring recognition of excess tax benefits and deficiencies in the income statement have been applied prospectively resulting in a benefit in the nine months ended December 31, 2016 of $0.5 million.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

We account for the fair values of our assets and liabilities in accordance with ASC Topic 820, Fair Value Measurement and Disclosure. The following table summarizes the fair value hierarchy of our financial instruments as of December 31, 2016 and March 31, 2016 (in thousands):

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | Recorded Amount | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31.2016 | | | | |
| Assets: | | | | |
| Money market funds | $ 29,851 | $ 29,851 | $ - | $ - |
| Liabilities: | | | | |
| Contingent consideration | $ 554 | $ - | $ - | $ 554 |
| March 31, 2016 | | | | |
| Assets: | | | | |
| Money market funds | $ 39,509 | $ 39,509 | $ - | $ - |
| Liabilities: | | | | |
| Contingent consideration | $ 1,041 | $ - | $ - | $ 1,041 |

We recorded no adjustments that increased the fair value of our liability for contingent consideration for the three months ended December 31, 2016. For the nine months December 31, 2016, we recorded adjustments that increased the fair value of our liability for contingent consideration by $232 thousand; and such adjustments were presented within general and administrative expenses in our unaudited condensed consolidated statement of operations. During the three months and nine months ended December 31, 2016, we paid $0.7 million to satisfy the current obligations of the contingent consideration arrangement.

For the three and nine months ended December 31, 2015, we recorded adjustments that increased the fair value of our liability for contingent consideration by $3 thousand and $318 thousand, respectively. During the three months and nine months ended December 31, 2015, we paid $1.2 million to satisfy the current obligations of the contingent consideration arrangement.

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14. SEGMENT REPORTING

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

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2016 | | | December 31, 2015 | | |
| | Technology | Financing | Total | Technology | Financing | Total |
| Sales of product and services | $317,391 | $- | $317,391 | $287,859 | $- | $287,859 |
| Financing revenue | - | 8,190 | 8,190 | - | 9,289 | 9,289 |
| Fee and other income | 915 | 161 | 1,076 | 1,506 | (10) | 1,496 |
| Net sales | 318,306 | 8,351 | 326,657 | 289,365 | 9,279 | 298,644 |
| Cost of sales, product and services | 251,729 | - | 251,729 | 231,503 | - | 231,503 |
| Direct lease costs | - | 1,142 | 1,142 | - | 3,081 | 3,081 |
| Cost of sales | 251,729 | 1,142 | 252,871 | 231,503 | 3,081 | 234,584 |
| Professional and other fees | 1,216 | 181 | 1,397 | 1,608 | 274 | 1,882 |
| Salaries and benefits | 40,155 | 2,230 | 42,385 | 35,043 | 2,329 | 37,372 |
| General and administrative expenses | 6,409 | (31) | 6,378 | 5,203 | 231 | 5,434 |
| Depreciation and amortization | 1,908 | 2 | 1,910 | 1,327 | 4 | 1,331 |
| Interest and financing costs | - | 409 | 409 | 10 | 386 | 396 |
| Operating expenses | 49,688 | 2,791 | 52,479 | 43,191 | 3,224 | 46,415 |
| Operating income | $16,889 | $4,418 | $21,307 | $14,671 | $2,974 | $17,645 |
| Selected Financial Data - Statement of Cash Flow | | | | | | |
| Depreciation and amortization | $1,941 | $985 | $2,926 | $1,365 | $3,152 | $4,517 |
| Purchases of property, equipment and operating lease equipment | $849 | $3,282 | $4,131 | $506 | $884 | $1,390 |
| Selected Financial Data - Balance Sheet | | | | | | |
| Total assets | $546,728 | $189,950 | $736,678 | $401,422 | $229,012 | $630,434 |

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| Statement of Operations | Nine Months Ended December 31, 2016 Technology | Financing | Total | December 31, 2015 Technology | Financing | Total |
|---|---|---|---|---|---|---|
| Sales of product and services | $968,799 | $- | $968,799 | $871,814 | $- | $871,814 |
| Financing revenue | - | 23,899 | 23,899 | - | 27,914 | 27,914 |
| Fee and other income | 3,679 | 245 | 3,924 | 5,038 | 30 | 5,068 |
| Net sales | 972,478 | 24,144 | 996,622 | 876,852 | 27,944 | 904,796 |
| | | | | | | |
| Cost of sales, product and services | 769,780 | - | 769,780 | 700,429 | - | 700,429 |
| Direct lease costs | - | 3,459 | 3,459 | - | 9,256 | 9,256 |
| Cost of sales | 769,780 | 3,459 | 773,239 | 700,429 | 9,256 | 709,685 |
| | | | | | | |
| Professional and other fees | 4,138 | 780 | 4,918 | 4,175 | 738 | 4,913 |
| Salaries and benefits | 117,822 | 6,657 | 124,479 | 101,471 | 6,855 | 108,326 |
| General and administrative expenses | 19,335 | 1,089 | 20,424 | 16,653 | 737 | 17,390 |
| Depreciation and amortization | 5,400 | 8 | 5,408 | 3,728 | 11 | 3,739 |
| Interest and financing costs | - | 1,158 | 1,158 | 51 | 1,320 | 1,371 |
| Operating expenses | 146,695 | 9,692 | 156,387 | 126,078 | 9,661 | 135,739 |
| | | | | | | |
| Operating income | $56,003 | $10,993 | $66,996 | $50,345 | $9,027 | $59,372 |
| | | | | | | |
| Selected Financial Data - Statement of Cash Flow | | | | | | |
| Depreciation and amortization | $5,494 | $3,264 | $8,758 | $3,831 | $9,189 | $13,020 |
| Purchases of property, equipment and operating lease equipment | $2,413 | $4,887 | $7,300 | $1,700 | $15,308 | $17,008 |
| | | | | | | |
| Selected Financial Data - Balance Sheet | | | | | | |
| Total assets | $546,728 | $189,950 | $736,678 | $401,422 | $229,012 | $630,434 |

The total of the reportable segments' measure of profit or loss excludes other income of $380 thousand for the nine months ended December 31, 2016, which is included in the consolidated earnings before tax but is not allocated to the segments.

On July 25, 2016, the Company announced its appointment of a new Chief Executive Officer and President effective August 1, 2016. We are currently evaluating the impact of this change to the determination of our reportable segments.

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15. BUSINESS COMBINATIONS

Consolidated IT Services acquisition

On December 6, 2016, our subsidiary ePlus Technology, inc., acquired certain assets and assumed certain liabilities of Consolidated IT Services. Consolidated IT Services business provides data center, unified communications, networking, and security solutions to a diverse set of domestic and international customers including commercial, enterprise, and state, local, and education (SLED) organizations in the upper Midwest. The primary reasons for this acquisition are that Consolidated IT Services expands our reach to the upper Midwest, a new geography for ePlus, and enables us to market our advanced technology solutions to their long-standing client base.

The total purchase price is $13.1 million including $9.5 million paid in cash at closing and $4.0 million that will be paid in cash in equal quarterly installments over 2 years, less $0.4 million that we believe is due back to us as part of the final working capital adjustment. Our preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

| | Acquisition Date Amount |
|---|---|
| Accounts receivable and other current assets | $ 7,501 |
| Property and equipment | 1,045 |
| Identified intangible assets | 3,340 |
| Accounts payable and other current liabilities | (6,411) |
| Total identifiable net assets | 5,475 |
| Goodwill | 7,614 |
| Total purchase consideration | $ 13,089 |

As stated above, our allocation of the purchase consideration is preliminary and subject to revision as additional information related to the fair value of assets and liabilities becomes available.

The identified intangible assets of $3.3 million consist entirely of customer relationships with an estimated useful life of 7 years.

We recognized goodwill related to this transaction of $7.6 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill is expected to be deductible for tax purposes. The amount of revenues and earnings of the acquiree since the acquisition date are not material. Likewise, the impact to the revenue and earnings of the combined entity for the current reporting period through the acquisition date had the acquisition date been April 1, 2016, is not material.

IGX acquisition

On December 4, 2015, our subsidiary ePlus Technology, inc., acquired certain assets and assumed certain liabilities of IGX Acquisition Global, LLC (“IGX Acquisition”), and IGX Support, LLC, including IGX Acquisition’s wholly-owned subsidiary, IGXGlobal UK Limited (collectively, “IGX”), which provide advanced security solutions, secured networking products and related professional services to a diverse set of domestic and international customers including commercial, enterprise, and state and local government and education (“SLED”) organizations. IGX is headquartered near Hartford, CT and has a sales presence in New York and Boston as well as an operating branch in London that serves its United Kingdom (“UK”) and global customers. IGXGlobal UK Limited is a private limited

company, registered in England and Wales.

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The total purchase price, net of cash acquired, was $16.6 million paid in cash. The allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

| | Acquisition Date Amount |
|---|---|
| Accounts receivable—trade, net | $ 8,457 |
| Property and equipment | 81 |
| Identified intangible assets | 8,710 |
| Accounts payable and other current liabilities | (8,641) |
| Deferred tax liability | (89) |
| Total identifiable net assets | 8,518 |
| Goodwill | 8,131 |
| Total purchase consideration | $ 16,649 |

The identified intangible assets consist of the following:

| | Estimated Useful Lives (in years) | Acquisition Date Amount |
|---|---|---|
| Intangible assets—customer relationships | 7 | $ 7,680 |
| Intangible assets—trade names | 10 | 520 |
| Intangible assets—backlog | 1 | 510 |
| Total identified intangible assets | | $ 8,710 |

We recognized goodwill related to this transaction of $8.1 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce, an entry into the UK and European markets and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill that is expected to be deductible for tax purposes is $5.8 million. The impact to our revenues and net earnings from this acquisition is not material.

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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 our consolidated financial condition and results of operations. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our annual report on Form 10-K for the fiscal year ended March 31, 2016 ("2016 Annual Report"). These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations may contain forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described in Part I, Item 1A, "Risk Factors," in our 2016 Annual Report.

EXECUTIVE OVERVIEW

Business Description

We are a leading provider of information technology (IT) solutions which enable organizations to optimize their IT environment and supply chain processes. We deliver and integrate world-class IT products and software from top vendors, and provide private, hybrid, and public cloud solutions to meet customers' evolving needs. We also provide consulting, professional and managed services and complete lifecycle management services including flexible financing solutions. We have been in the business of selling, leasing, financing, and managing information technology and other assets for more than 26 years.

Our primary focus is to deliver secure, integrated technology solutions for our customers' data center, network, security, maintenance, and collaboration needs, including hosted, on-premise and hybrid cloud infrastructures. These solutions may encompass the full lifecycle of IT and include consulting, assessments, architecture, design, testing, implementation, and ongoing managed services and periodic consultative business reviews. We offer security, storage, cloud, mobility, hyper-converged infrastructure, and other advanced technologies. We design, implement and provide an array of IT solutions from multiple leading IT vendors. We are an authorized reseller from over 1,000 vendors, but primarily from approximately 100 vendors, including Artista Networks, Check Point, Cisco Systems, Citrix, Commvault, Dell, EMC, F5 Networks, Gigamon, HP Inc., HPE, Juniper Networks, Lenovo, NetApp, Nimble Storage, Oracle, Palo Alto Networks, Pure Storage, Quantum, Splunk, and VMware, among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer multi-vendor IT solutions that are optimized for each of our customers' specific requirements. Our hosted, proprietary software solutions are focused on giving our customers more control over their IT supply chain, by automating and optimizing the procurement and management of their assets.

Our size and strong financial results have enabled us to invest in the engineering and technology resources required to stay current with emerging technology trends and deliver leading edge IT solutions. We believe we are a trusted IT advisor to our customers, delivering turn-key IT solutions that incorporate hardware, software, security and both managed and professional services. In addition, we offer a wide range of leasing and financing options for technology and other capital assets. We believe our lifecycle approach offering of integrated IT products, services, financing, and our proprietary supply chain software, is unique in the industry. It allows us to offer a customer service strategy that spans the continuum from fast delivery of competitively priced products, services, subsequent management and upkeep, through to end-of-life disposal services. This selling approach also permits us to grow with our customers and solidify our relationships through hands-on engagement and understanding of their needs.

We focus exclusively on middle market and large enterprises. For the trailing twelve months ended December 31, 2016, the percentage of revenue by customer end market within our technology segment includes: technology industry 22%, state and local government, and educational institutions 21%, telecommunications, media and entertainment 16%, financial services 12%, and healthcare 11%. The majority of our sales were generated within the United States, however, we have the ability to support our customers nationally and internationally and in December 2015 we

acquired our first international subsidiary which is located in the UK. Our technology segment accounts for 98% of our net sales, and 84% of our operating income, while our financing segment accounts for 2% of our net sales, and 16% of our operating income for the nine months ended December 31, 2016.

Since the June 23, 2016 UK referendum (“Brexit”) on whether to remain in, or leave, the European Union, the United Kingdom has faced a remarkable range of political, monetary, economic and even constitutional challenges. For some companies, Brexit could impact revenue items, cost items, tax, goodwill impairments and liquidity, among others. The most obvious immediate impact is the effect of foreign exchange fluctuations on revenue and cost items. We have determined that our foreign currency exposure for our United Kingdom operations is insignificant in relation to total consolidated operations and we believe those potential fluctuations in currency exchange rates and other Brexit related economic and operational risks will not have a material effect on our results of operations and financial position.

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We evaluate Brexit-related developments on a regular basis to determine if such developments are anticipated to have a material impact on the Company's results on operations and financial position.

Key Business Metrics

Our management monitors a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business. We use these measures and ratios along with other information to evaluate the operating performance of our business, develop financial forecasts, make strategic decisions, and prepare and approve annual budgets.

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

Our key business metrics and results from those metrics are as follows, (dollars in thousands):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Sales of products and services | $317,391 | $287,859 | $968,799 | $871,814 |
| Adjusted gross billings of product and services (1) | $432,407 | $393,922 | $1,317,188 | $1,157,327 |
| Gross margin | 22.6 % | 21.5 % | 22.4 % | 21.6 % |
| Gross margin, product and services | 20.7 % | 19.6 % | 20.5 % | 19.7 % |
| Operating income margin | 6.5 % | 5.9 % | 6.7 % | 6.6 % |
| Net earnings | $12,620 | $10,297 | $40,066 | $34,790 |
| Net earnings per common share - diluted | $1.81 | $1.40 | $5.71 | $4.74 |
| Non-GAAP: Net earnings (2) | $13,294 | $10,694 | $41,383 | $35,840 |
| Non-GAAP: Net earnings per common share - diluted (2) | $1.91 | $1.46 | $5.90 | $4.89 |
| Adjusted EBITDA (3) | $23,217 | $18,976 | $72,404 | $63,111 |
| Adjusted EBITDA margin (3) | 7.1 % | 6.4 % | 7.3 % | 7.0 % |
| Purchases of property and equipment used internally | $849 | $506 | $2,413 | $1,700 |
| Purchases of equipment under operating leases | 3,282 | 884 | 4,887 | 15,308 |
| Total capital expenditures | $4,131 | $1,390 | $7,300 | $17,008 |

(1) We define Adjusted gross billings of product and services as our sales of product and services calculated in accordance with GAAP, adjusted to exclude the costs incurred related to sales of third party software assurance, subscription licenses, maintenance and services. We have provided below a reconciliation of Adjusted gross billings of product and services to Sales of product and services, which is the most directly comparable financial measure to this non-GAAP financial measure.

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

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Sales of products and services | $ 317,391 | $ 287,859 | $ 968,799 | $ 871,814 |
| Costs incurred related to sales of third party services | 115,016 | 106,063 | 348,389 | 285,513 |
| Adjusted gross billings of product and services | $ 432,407 | $ 393,922 | $ 1,317,188 | $ 1,157,327 |

(2) Non-GAAP net earnings per common share are based on net earnings calculated in accordance with GAAP, adjusted to exclude other income and acquisition related amortization expense, and related effects on income tax. Non-GAAP provision for income taxes is calculated based on the effective tax rate for the non-GAAP adjustments for the three and nine months ended December 31, 2016. For comparative purposes, the non-GAAP provision for income tax for the nine months ended December 31, 2016, excludes the tax benefit of the $0.5 million associated with the adoption in the quarter ended June 30, 2016 of the stock compensation accounting standard. There was no adjustment for this tax benefit in the quarter ended December 31, 2016. We use Non-GAAP net earnings per common share as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income and acquisition related amortization expense in calculating Non-GAAP net earnings per common share provides management and investors a useful measure for period-to-period comparisons of our core business and operating results by excluding items that are not comparable across reporting periods. Accordingly, we believe that non-GAAP net earnings per common share provide useful information to investors and others in understanding and evaluating our operating results. However, our use of Non-GAAP net earnings per common share as an analytical tool has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. In addition, other companies, including companies in our industry, might calculate Non-GAAP net earnings per common share or similarly titled measures differently, which may reduce their usefulness as comparative measures.

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| GAAP: Earnings before tax | $ 21,307 | $ 17,645 | $ 67,376 | $ 59,372 |
| Less: Other income | - | - | (380 ) | - |
| Plus: Acquisition related amortization expense | 1,035 | 680 | 3,098 | 1,793 |
| Non-GAAP: Earnings before provision for income taxes | 22,342 | 18,325 | 70,094 | 61,165 |
| Non-GAAP: Provision for income taxes | 9,048 | 7,631 | 28,711 | 25,325 |
| Non-GAAP: Net earnings | $ 13,294 | $ 10,694 | $ 41,383 | $ 35,840 |
| GAAP: Net earnings per common share - diluted | $ 1.81 | $ 1.40 | $ 5.71 | $ 4.74 |
| Non-GAAP: Net earnings per common share - diluted | $ 1.91 | $ 1.46 | $ 5.90 | $ 4.89 |

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

We use Adjusted EBITDA as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income in calculating Adjusted EBITDA and Adjusted EBITDA margin provides management and investors a useful measure for period-to-period comparisons of our business and operating results by excluding items that are not comparable across reporting periods. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by Net sales. Accordingly, we believe that Adjusted EBITDA and Adjusted EBITDA margin provide useful information to investors and others in understanding and evaluating our operating results. However, our use of Adjusted EBITDA and Adjusted EBITDA margin as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. In addition, other companies, including companies in our industry, might calculate Adjusted EBITDA and Adjusted EBITDA margin or similarly titled measures differently, which may reduce their usefulness as comparative measures.

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| Consolidated | 2016 | 2015 | 2016 | 2015 |
| Net earnings | $ 12,620 | $ 10,297 | $ 40,066 | $ 34,790 |
| Provision for income taxes | 8,687 | 7,348 | 27,310 | 24,582 |
| Depreciation and amortization | 1,910 | 1,331 | 5,408 | 3,739 |
| Less: Other income | - | - | (380 ) | - |
| Adjusted EBITDA | $ 23,217 | $ 18,976 | $ 72,404 | $ 63,111 |
| | | | | |
| Technology Segment | | | | |
| Operating income | $ 16,889 | $ 14,671 | $ 56,003 | $ 50,345 |
| Plus: Depreciation and amortization | 1,908 | 1,327 | 5,400 | 3,728 |
| Adjusted EBITDA | $ 18,797 | $ 15,998 | $ 61,403 | $ 54,073 |
| | | | | |
| Financing Segment | | | | |
| Operating income | $ 4,418 | $ 2,974 | $ 10,993 | $ 9,027 |
| Plus: Depreciation and amortization | 2 | 4 | 8 | 11 |
| Adjusted EBITDA | $ 4,420 | $ 2,978 | $ 11,001 | $ 9,038 |

Consolidated Results of Operations

During the three months ended December 31, 2016, net sales increased 9.4%, or $28.0 million to $326.7 million, compared to $298.6 million for the same period in the prior fiscal year. For the nine months ended December 31, 2016, net sales increased 10.1%, or $91.8 million to $996.6 million, compared to $904.8 million for the same period in the prior fiscal year.

Net sales of product and services increased 10.3% or $29.5 million to $317.4 million, from $287.9 million for three months ended December 31, 2015. For the nine months ended December 31, 2016, net sales of product and services increased 11.1% or $97.0 million to $968.8 million, from $871.8 million in the prior year. The increase in net sales of product and services revenues for both the three months ended December 31, 2016 was a result of higher demand from the telecom, media & entertainment industry, and state and local government and education ("SLED") organizations. For the nine months ended December 31, 2016, the increase in net sales of product and services revenues was a result of higher demand from the telecom, media & entertainment industry, state and local government and education ("SLED") organizations, and technology customers.

Adjusted gross billings of product and services increased 9.8%, or $38.5 million to $432.4 million, for the three months ended December 31, 2016 from $393.9 million for the same period in the prior fiscal year. For the nine months ended December 31, 2016, Adjusted gross billings of product and services increased 13.8%, or $159.9 million to $1,317.2 million, from $1,157.3 million for the same period in the prior fiscal year. The greater percentage increase in Adjusted gross billings of product and services over the percentage increase in net sales for both the three and nine months ended December 31, 2016 was due to a shift in product and services mix, as we sold a higher proportion of third party software assurance, maintenance and services, which are presented on a net basis.

Consolidated gross profit rose 15.2% to $73.8 million, compared with $64.1 million for the three months ended December 31, 2015. Consolidated gross margins were 22.6% for the three months ended December 31, 2016 an increase of 110 basis points compared to 21.5% for the three months ended December 31, 2015. Our gross margin for product and services was 20.7% during the three months ended December 31, 2016 compared to 19.6% during the three months ended December 31, 2015. Contributing to our margins for the three month period was a shift in product sales mix, as we sold a higher proportion of third party software assurance, maintenance and services. Also contributing to the higher gross margin was an increase in vendor incentives earned as a percentage of sales of product and services of 10 basis points for the three months ended December 31, 2016, as compared to the same period in the prior year.

For the nine months ended December 31, 2016, consolidated gross profit rose 14.5% to $223.4 million, compared with $195.1 million for the same period in the prior fiscal year. Consolidated gross margins were 22.4% for the nine months ended December 31, 2016, an increase of 80 basis points, compared to 21.6% for the nine months ended December 31, 2015. Our gross margin for product and services was 20.5% during the nine months ended December 31, 2016 compared to 19.7% during the nine months ended December 31, 2015.

Our operating expenses increased 13.1% to $52.5 million, representing 16.1% of net sales for the three months ended December 31, 2016 as compared to $46.4 million, representing 15.5% of net sales in the same period for the prior year. For the nine months ended December 31, 2016 operating expenses increased 15.2% to $156.4 million, representing 15.7% of net sales, as compared to $135.7 million, representing 15.0% of net sales in the prior year. The majority of this increase reflects increased variable compensation as a result of the increase in gross profit, as well as additional employees. Our headcount increased by 104 employees or 9.8% to 1,164 from 1,060 a year ago, of which 48 relate to the acquisition of Consolidated IT Services. The personnel additions included 95 sales and engineering positions with the remaining additions being administrative positions.

Operating income for the three months ended December 31, 2016 increased 20.8% to $21.3 million, as compared to $17.6 million for the three months ended December 31, 2015. For the three months ended December 31, 2016, the operating income margin increased 60 basis points to 6.5% from 5.9% for the same period in the prior year. For the nine months ended December 31, 2016, operating income increased 12.8% to $67.0 million, as compared to $59.4 million for the prior year period. For the nine months ended December 31, 2016, the operating income margin increased 10 basis points to 6.7% from 6.6% for the same period in the prior year.

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During the nine months ended December 31, 2016, we received $380 thousand related to the dynamic random access memory (DRAM) class action lawsuit, which claimed that manufacturers fixed the price for DRAM, a common component in consumer electronics, which is included within other income in our unaudited consolidated statement of operations.

Consolidated net earnings for the three months ended December 31, 2016 were $12.6 million, an increase of 22.6%, or $2.3 million, over the prior year's results of $10.3 million. For the nine months ended December 31, 2016 consolidated net earnings were $40.1 million, an increase of 15.2%, or $5.3 million, over the prior year's results of $34.8 million. The increase in consolidated net earnings for the nine months ended December 31, 2016, over the prior year period, is inclusive of non-operating income of $380 thousand relating to our claim in the class action lawsuit mentioned above.

Adjusted EBITDA increased $4.2 million, or 22.3%, to $23.2 million and Adjusted EBITDA margin increased 70 basis points to 7.1% for the three months ended December 31, 2016, as compared to the prior period of 6.4%. For the nine months ended December 31, 2016 Adjusted EBITDA increased $9.3 million, or 14.7%, to $72.4 million and Adjusted EBITDA margin increased 30 basis points to 7.3% compared to the prior period of 7.0%.

Diluted earnings per share increased 29.3%, or $0.41 to $1.81 per share for the three months ended December 31, 2016, as compared to $1.40 per share for the three months ended December 31, 2015. Our effective tax rate for the three months ended December 31, 2016 was 40.8%. Non-GAAP diluted earnings per share increased 30.8% to $1.91 for the three months ended December 31, 2016, as compared to $1.46 for the three months ended December 31, 2015. This non-GAAP metric excludes acquisition-related amortization expenses, other income and the related effects on income taxes.

For the nine months ended December 31, 2016, diluted earnings per share increased 20.5%, or $0.97 to $5.71 per share, as compared to $4.74 per share for the same nine months for the prior year. Our effective tax rate for the nine months ended December 31, 2016 was 40.5%, which includes a tax benefit of $0.5 million, or $0.07 per diluted share, related to the adoption of the new share based compensation accounting standard. Non-GAAP diluted earnings per share increased 20.7% to $5.90 for the nine months ended December 31, 2016, as compared to $4.89 for the nine months ended December 31, 2015.

Cash and cash equivalents decreased $25.1 million or 26.5% to $69.7 million at December 31, 2016 compared with $94.8 million as of March 31, 2016. The decrease is primarily the result of investments in our financing portfolio, working capital required for the growth in our technology segment, an increase in inventory of $77.7 million committed to customer orders, and the repurchase of 328,481 shares of our common stock for $26.8 million under our stock repurchase authorization in the nine months ended December 31, 2016, and $9.5 million paid in cash at closing for our acquisition of Consolidated IT Services. Our cash on hand, funds generated from operations, amounts available under our credit facility and the possible monetization of our investment portfolio provide sufficient liquidity for our business.

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Segment Overview

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

Technology Segment

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

Customers who purchase IT equipment and services from us may have customer master agreements, or CMAs, with our company, which stipulate the terms and conditions of the relationship. Some CMAs contain pricing arrangements, and most contain mutual voluntary termination clauses. Our other customers place orders using purchase orders without a CMA in place or with other documentation customary for the business. Often, our work with state and local governments is based on public bids and our written bid responses. Our service engagements are generally governed by statements of work, and are primarily fixed price (with allowance for changes); however, some service agreements are based on time and materials.

We endeavor to minimize our cost of sales through incentive programs provided by vendors and distributors. The programs we qualify for are generally set by our reseller authorization level with the vendor. The authorization level we achieve and maintain governs the types of products we can resell as well as such items as pricing received, funds provided for the marketing of these products and other special promotions. These authorization levels are achieved by us through purchase volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorization levels are costly to maintain and these programs continually change and, therefore, there is no guarantee of future reductions of costs provided by these vendor consideration programs.

Financing Segment

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

Financing revenue generally falls into the following three categories:

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

Our financing segment sells the equipment underlying a lease to the lessee or a third-party other than the lessee. These sales occur at the end of the lease term and revenues from the sales of such equipment are recognized at the date of sale. We also recognize revenue from events that occur after the initial sale of a financial asset and remarketing fees from certain residual value investments.

Fluctuations in Revenues

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

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

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CRITICAL ACCOUNTING ESTIMATES

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, residual values, vendor incentives, lease classification, goodwill and intangibles, reserves for credit losses and income taxes specifically relating to uncertain tax positions. We base estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For all such estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates may require adjustment.

Our critical accounting estimates have not changed from those reported in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2016 Financial Statements.

SEGMENT RESULTS OF OPERATIONS

The three and nine months ended December 31, 2016 compared to the three and nine months ended December 31, 2015

Technology Segment

The results of operations for our technology segment for the three and nine months ended December 31, 2016 and 2015 were as follows (dollars in thousands):

| | Three Months Ended December 31, | | | | Nine Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | | 2016 | 2015 | Change | |
| Sales of product and services | $317,391 | $287,859 | $29,532 | 10.3 % | $968,799 | $871,814 | $96,985 | 11.1 % |
| Fee and other income | 915 | 1,506 | (591 ) | (39.2 %) | 3,679 | 5,038 | (1,359 ) | (27.0 %) |
| Net sales | 318,306 | 289,365 | 28,941 | 10.0 % | 972,478 | 876,852 | 95,626 | 10.9 % |
| Cost of sales, product and services | 251,729 | 231,503 | 20,226 | 8.7 % | 769,780 | 700,429 | 69,351 | 9.9 % |
| Gross profit | 66,577 | 57,862 | 8,715 | 15.1 % | 202,698 | 176,423 | 26,275 | 14.9 % |
| | | | | | | | | |
| Professional and other fees | 1,216 | 1,608 | (392 ) | (24.4 %) | 4,138 | 4,175 | (37 ) | (0.9 %) |
| Salaries and benefits | 40,155 | 35,043 | 5,112 | 14.6 % | 117,822 | 101,471 | 16,351 | 16.1 % |
| General and administrative | 6,409 | 5,203 | 1,206 | 23.2 % | 19,335 | 16,653 | 2,682 | 16.1 % |
| Depreciation and amortization | 1,908 | 1,327 | 581 | 43.8 % | 5,400 | 3,728 | 1,672 | 44.8 % |
| Interest and financing costs | - | 10 | (10 ) | (100.0%) | - | 51 | (51 ) | (100.0%) |
| Operating expenses | 49,688 | 43,191 | 6,497 | 15.0 % | 146,695 | 126,078 | 20,617 | 16.4 % |
| | | | | | | | | |
| Operating income | $16,889 | $14,671 | $2,218 | 15.1 % | $56,003 | $50,345 | $5,658 | 11.2 % |
| Adjusted EBITDA | $18,797 | $15,998 | $2,799 | 17.5 % | $61,403 | $54,073 | $7,330 | 13.6 % |

Net sales: Net sales for the three months ended December 31, 2016 were $318.3 million compared to $289.4 million during the three months ended December 31, 2015, an increase of 10.0%, or $28.9 million. The increase in net sales of product and services revenues was a result of an increase in demand for products and services from the telecom, media

and entertainment industry and healthcare customers for the three months ended December 31, 2016. For the nine months ended December 31, 2016, net sales were $972.5 million compared to $876.9 million, an increase of 10.9%, or $95.6 million over the same period for the prior year. The increase in demand for products and services was related to the telecom, media and entertainment industry, healthcare, technology, and SLED customers for the nine months ended December 31, 2016 over the prior year period.

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Adjusted gross billings of product and services for the three months ended December 31, 2016 were $432.4 million compared to $393.9 million during the three months ended December 31, 2015, an increase of 9.8% or $38.5 million. For the nine months ended December 31, 2016, Adjusted gross billings of product and services increased 13.8%, or $159.9 million to $1,317.2 million, from $1,157.3 million for the same period in the prior fiscal year. The increases in the three and nine months ended December 31, 2016 over the prior year periods were due to higher customer demand for ePlus' IT solution offerings as well as the acquisitions of IGX.

Sales of product and services during the three months ended December 31, 2016 were $317.4 million compared to $287.9 million during the three months ended December 31, 2015, an increase of 10.3% or $29.5 million. For the nine months ended December 31, 2016, sales of product and services increased 11.1%, or $97.0 million to $968.8 million, from $871.8 million for the same period in the prior fiscal year. The smaller increase in sales of product and services compared to Adjusted gross billings of product and services reflects a higher proportion of sales from third party maintenance, software assurance, and services, which are presented on a net basis.

Summarized below are the sequential and year-over-year changes in net sales of product and services:

| Quarter Ended | Sequential | | Year over Year |
|---|---|---|---|
| December 31, 2016 | (12.1 | %) | 10.3 % |
| September 30, 2016 | 24.5 | % | 11.4 % |
| June 30, 2016 | (0.5 | %) | 11.7 % |
| March 31, 2016 | 1.3 | % | 13.3 % |
| December 31, 2015 | (11.2 | %) | (2.6 %) |
| September 30, 2015 | 24.9 | % | 13.1 % |

We rely on our vendors to fulfill a large majority of shipments to our customers. As of December 31, 2016, we had open orders of $238.5 million and deferred revenue of $66.3 million. As of December 31, 2015, we had open orders of $87.9 million and deferred revenues of $26.3 million. The increase in open orders of $150.6 million is due to demand for products and services from our largest corporate customers. The increase in deferred revenue of $40.0 million is primarily due to prepayments by a customer for equipment that we expect to deliver in the next three to six months.

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

| | Twelve Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | Change | |
| Revenue by customer end market: | | | | | | |
| SLED | 21 | % | 23 | % | (2 | %) |
| Technology | 22 | % | 23 | % | (1 | %) |
| Telecom, Media & Entertainment | 16 | % | 14 | % | 2 | % |
| Healthcare | 11 | % | 10 | % | 1 | % |
| Financial Services | 12 | % | 12 | % | - | |
| Other | 18 | % | 18 | % | - | |
| Total | 100 | % | 100 | % | | |
| | | | | | | |
| Revenue by vendor: | | | | | | |
| Cisco Systems | 49 | % | 49 | % | - | |
| HP Inc. & HPE | 6 | % | 7 | % | (1 | %) |

| | | | | | | |
|---|---|---|---|---|---|---|
| NetApp | 5 | % | 6 | % | (1 | %) |
| Sub-total | 60 | % | 62 | % | (2 | %) |
| Other | 40 | % | 38 | % | 2 | % |
| Total | 100 | % | 100 | % | | |

Our revenues by customer end market have remained consistent over the year with approximately 80% of our revenues generated from customers within the five end markets identified above. During the trailing twelve months ended December 31, 2016 we had an increase in the percentage total revenues from customers in the telecom, media and entertainment industry, and healthcare industries, which were partially offset by decreases in the percentage of total revenues from SLED and technology customers over the prior year period. These changes were driven by changes in customer buying cycles and specific IT related initiatives, rather than the acquisition or loss of a customer or set of customers.

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The majority of our revenues by vendor are derived from Cisco Systems, a combined HP Inc. and HPE, and NetApp, which in total, declined to 60% for the trailing twelve months ended December 31, 2016 from approximately 62% in the prior year trailing twelve month period, with the greatest decline in the percentage of total revenues in HP Inc. product sales. The decrease in the percentage of revenues from the top three vendors is due to substantial competition and rapid developments in the IT industry. None of the vendors included within the “other” category exceeded 4% of total revenues.

Gross profit: Our gross margin for product and services expanded by 110 basis points to 20.7% during the three months ended December 31, 2016 compared to 19.6% during the three months ended December 31, 2015. For the nine months ended December 31, 2016, gross margin for product and services was 20.5%, an increase of 80 basis points over 19.7% in the same period in the prior year. The expansion in gross margins was due to the strategy of shifting toward products with higher margins, an increase in gross profit from services, and a higher proportion of third party software assurance, maintenance and services, which are presented on a net basis. Contributing to our margins was an increase in vendor incentives earned as a percentage of sales of product and services for the three and nine months ended December 31, 2016 of 10 basis points and 30 basis points, respectively, from the prior year.

Professional and other fees were $1.2 million for the three months ended December 31, 2016, compared to $1.6 million for the three months ended December 31, 2015, due primarily to legal, and outside consulting fees. Professional and other fees were $4.1 million for the nine months ended December 31, 2016, compared to $4.2 million for the same period in the prior year, due primarily to legal, auditing, and outside consulting fees.

Salaries and benefits increased $5.1 million, or 14.6%, to $40.2 million during the three months ended December 31, 2016, compared to $35.0 million during the three months ended December 31, 2015. For the nine months ended December 31, 2016, salaries and benefits increased to $117.8 million, a 16.1% increase over $101.5 million reported in the prior year. The increase in salaries and benefits is due to higher variable compensation as a result of the increase in gross profit, as well as higher salaries due to increases in personnel. Our technology segment had 1,113 employees as of December 31, 2016, an increase of 107 or 10.6% from 1,006, as of December 31, 2015, of which 48 relate to the acquisition of Consolidated IT Services. The position additions included 95 sales and engineering positions with the remaining additions being administrative positions.

General and administrative expenses increased $1.2 million, or 23.2% to $6.4 million during the three months ended December 31, 2016 over the same period for the prior year. General and administrative expenses increased $2.7 million, or 16.1% to $19.3 million during the nine months ended December 31, 2016 over the same period for the prior year. The increase in general and administrative expenses for the three and nine months ended December 31, 2016 was primarily due to higher software license and maintenance expense, foreign currency transaction losses, and sales and marketing activity related expenses.

Depreciation and amortization expense increased $0.6 million, or 43.8%, to $1.9 million during the three months ended December 31, 2016 compared to $1.3 million in the prior year. For the nine months ended December 31, 2016, depreciation and amortization expense increased $1.7 million, or 44.8%, to $5.4 million, compared to $3.7 million in the prior year period. The increase in depreciation and amortization expense is related to the acquisition of IGX in December, 2015 and Consolidated IT Services in December, 2016.

Segment operating income: As a result of the foregoing, operating income was $16.9 million, an increase of $2.2 million, or 15.1% for the three months ended December 31, 2016 over $14.7 million in the prior year period. Operating income was $56.0 million, an increase of $5.7 million, or 11.2% for the nine months ended December 31, 2016 over $50.3 million in the prior year period.

For the three months ended December 31, 2016, Adjusted EBITDA was $18.8 million, an increase of $2.8 million, or 17.5% over $16.0 million in the prior year period. Adjusted EBITDA was $61.4 million for the nine months ended

December 31, 2016, an increase of $7.3 million, or 13.6% over $54.1 million in the same period in the prior year.



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Financing Segment

The results of operations for our financing segment for the three and nine months ended December 31, 2016 and 2015 were as follows (dollars in thousands):

| | Three Months Ended December 31, | | | | Nine Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change | | 2016 | 2015 | Change | |
| Financing revenue | $8,190 | $9,289 | $(1,099) | (11.8 %) | $ 23,899 | $ 27,914 | $(4,015) | (14.4 %) |
| Fee and other income | 161 | (10 ) | 171 | 1710.0% | 245 | 30 | 215 | 716.7% |
| Net sales | 8,351 | 9,279 | (928 ) | (10.0 %) | 24,144 | 27,944 | (3,800) | (13.6 %) |
| Direct lease costs | 1,142 | 3,081 | (1,939) | (62.9 %) | 3,459 | 9,256 | (5,797) | (62.6 %) |
| Gross profit | 7,209 | 6,198 | 1,011 | 16.3 % | 20,685 | 18,688 | 1,997 | 10.7 % |
| | | | | | | | | |
| Professional and other fees | 181 | 274 | (93 ) | (33.9 %) | 780 | 738 | 42 | 5.7 % |
| Salaries and benefits | 2,230 | 2,329 | (99 ) | (4.3 %) | 6,657 | 6,855 | (198 ) | (2.9 %) |
| General and administrative | (31 ) | 231 | (262 ) | (113.4 %) | 1,089 | 737 | 352 | 47.8 % |
| Depreciation and amortization | 2 | 4 | (2 ) | (50.0 %) | 8 | 11 | (3 ) | (27.3 %) |
| Interest and financing costs | 409 | 386 | 23 | 6.0 % | 1,158 | 1,320 | (162 ) | (12.3 %) |
| Operating expenses | 2,791 | 3,224 | (433 ) | (13.4 %) | 9,692 | 9,661 | 31 | 0.3 % |
| | | | | | | | | |
| Operating income | $4,418 | $2,974 | $1,444 | 48.6 % | $ 10,993 | $ 9,027 | $1,966 | 21.8 % |
| Adjusted EBITDA | $4,420 | $2,978 | $1,442 | 48.4 % | $ 11,001 | $ 9,038 | $1,963 | 21.7 % |

Net sales: Net sales decreased by $0.9 million, or 10.0%, to $8.4 million for the three months ended December 31, 2016, as compared to $9.3 million for the three months ended December 31, 2015 due to lower portfolio earnings and transactional gains, partially offset by increases in post-contract earnings. During the quarters ended December 31, 2016 and 2015, we recognized net gains on sales of financial assets of $0.9 million and $1.4 million, respectively, and the fair value of assets received from these sales were $55.8 million and $54.1 million, respectively. Portfolio earnings declined by $2.1 million to $2.3 million from $4.4 million recognized in the three months ended December 31, 2015, while post contract earnings increased $1.2 million to $4.5 million from $3.3 million for the three months ended December 31, 2016 over the prior year, mainly due to a large expired lease contract converting to a month-to-month basis.

For the nine months ended December 31, 2016, net sales decreased by $3.8 million, or 13.6%, to $24.1 million, as compared to $27.9 million for the nine months ended December 31, 2015 due to lower portfolio earnings. During the nine months ended December 31, 2016 and 2015, we recognized net gains on sales of financial assets of $4.1 million and $5.4 million, respectively, the fair value of assets received from these sales were $185.4 million and $162.7 million, respectively. Portfolio earnings declined by $6.7 million to $6.8 million from $13.5 million, while post contract earnings increased $3.3 million to $12.1 million from $8.7 million recognized in the nine months ended December 31, 2015.

At December 31, 2016, we had $140.4 million in financing receivables and operating leases, compared to $156.9 million as of December 31, 2015, a decrease of $16.5 million or 10.5%.

Gross profit: Gross profit increased by $1.0 million, or 16.3% to $7.2 million for the three months ended December 31, 2016, over the same period of the prior year, as a result of lower direct lease costs, which declined 62.9% from the same quarter in the prior year. For the nine months ended December 31, 2016, gross profit increased by $2.0 million, or 10.7% to $20.7 million as compared to the same period in the prior year due to a decline in direct lease costs of 62.6% or $5.8 million. The significant decline in direct lease costs was driven by lower depreciation expense relating to our operating lease investments.

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Operating expenses: For the three months ended December 31, 2016 operating expenses decreased by $0.4 million or 13.4%, which was due primarily to a reduction in our reserves for credit losses, salaries and benefits, and lower outside legal and consulting expense compared to the prior year period. For the nine months ended December 31, 2016 operating expenses increased by only $31 thousand or 0.3%, which was due primarily to an increase in our reserves for credit losses, and software license and maintenance expense, partially offset by lower salary expense and lower interest and financing costs. Our financing segment had 51 employees as of December 31, 2016, compared to 54 employees as of December 31, 2015.

Interest and financing costs remained constant at $0.4 million for the three months ended December 31, 2016, compared to the prior year. For the nine months ended December 31, 2016, interest and financing costs decreased by $0.2 million due to a decrease in the average total notes payable outstanding and lower average interest rates over the nine months ended December 31, 2016. Total notes payable were $54.0 million as of December 31, 2016, an increase of $4.4 million or 8.9% compared to $49.6 million as of December 31, 2015. Our weighted average interest rate for non-recourse notes payable was 3.38% and 3.09%, as of December 31, 2016 and December 31, 2015, respectively.

Segment operating income: As a result of the foregoing, operating income and Adjusted EBITDA both increased $1.4 million or 48.6% and 48.4%, respectively, for the three months ended December 31, 2016 over the prior year period. For the nine months ended December 31, 2016, operating income and Adjusted EBITDA both increased $2.0 million or 21.8% and 21.7%, respectively, over the prior year period.

Consolidated

Income taxes: Our provision for income tax expense was $8.7 million and $27.3 million for the three and nine months ended December 31, 2016, respectively, as compared to $7.3 million and $24.6 million, for the same periods last year. Our effective income tax rates for the three and nine months ended December 31, 2016 were 40.8% and 40.5%, respectively. Our effective income tax rates for the three and nine months ended December 31, 2015 were 41.6% and 41.4%, respectively. The change in our effective income tax rate was due primarily to a tax benefit of $0.5 million associated with adoption of ASU 2016-09 Stock Compensation.

Net earnings: The foregoing resulted in net earnings of $12.6 million and $40.1 million for the three and nine months ended December 31, 2016, respectively, an increase of 22.6% and 15.2%, as compared to $10.3 million and $34.8 million during the three and nine months ended December 31, 2015, respectively.

Basic and fully diluted earnings per common share were $1.83 and $1.81, for the three months ended December 31, 2016, an increase of 29.8% and 29.3% as compared to $1.41 and $1.40, respectively, for the three months ended December 31, 2015. Basic and fully diluted earnings per common share were $5.77 and $5.71, for the nine months ended December 31, 2016, an increase of 20.5% as compared to $4.79 and $4.74, respectively, for the nine months ended December 31, 2015.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the three and nine months ended December 31, 2016, was 6.9 million and 7.0 million, respectively. Weighted average common shares outstanding used in the calculation of the basic and diluted earnings per common share for the three and nine months ended December 31, 2015, was 7.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

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

Our subsidiary ePlus Technology, inc., part of our technology segment, finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or ("WFCDF"). (f/k/a GE Commercial Distribution Finance LLC). ePlus Technology, inc's agreement with WFCDF has an aggregate credit limit of $250 million as of December 31, 2016. 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" in our consolidated balance sheets. Payments on the floor plan component are due on three specified dates each month, generally 30-60 days from the invoice date. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no outstanding balance at December 31, 2016 or March 31, 2016, while the maximum credit limit was $30.0 million for both periods. The borrowings and repayments under the floor plan component are reflected as "net borrowings on floor plan facility" in the cash flows from financing activities section of our consolidated statements of cash flows.

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

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

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

Cash Flows

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

Nine Months Ended December 31,

| | 2016 | | 2015 | |
|---|---|---|---|---|
| Net provided by (cash used) in operating activities | $ 29,702 | | $ (17,717 | ) |
| Net cash used in investing activities | (47,040 | ) | (44,344 | ) |
| Net cash provided by (used in) financing activities | (8,205 | ) | 52,479 | |
| Effect of exchange rate changes on cash | 454 | | (26 | ) |
| Net decrease in cash and cash equivalents | $ (25,089 | ) | $ (9,608 | ) |

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Cash flows from operating activities. Cash provided by operating activities totaled $29.7 million during the nine months ended December 31, 2016. Net earnings adjusted for the impact of non-cash items was $45.0 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of $15.3 million, primarily due to net additions to accounts receivables of $62.0 million, inventories of $77.4 million, partially offset by increases accounts payable of $53.2 million, and salaries and commissions payable, deferred revenues and other liabilities of $51.2 million.

Cash used in operating activities totaled $17.7 million during the nine months ended December 31, 2015. Net earnings adjusted for the impact of non-cash items was $40.5 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of $58.2 million, primarily due to additions to accounts receivables of $32.9 million, financing receivables—net of $10.7 million, and reductions in salaries and commissions payable, deferred revenues and other liabilities of $9.0 million.

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

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Days sales outstanding (1) | 52 | 56 |
| Days inventory outstanding (2) | 23 | 6 |
| Days payable outstanding (3) | (48) | (42) |
| Cash conversion cycle | 27 | 20 |

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

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

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

Our standard payment term for customers is between 30-60 days; however, certain customers are approved for extended payment terms. Invoices processed through our credit facility, or the accounts payable—floor plan balance, are typically paid within 45-60 days from the invoice date, while accounts payable—trade invoices are typically paid within 30 days from the invoice date. Our cash conversion cycle was 27 days as of December 31, 2016 and 20 days as of December 31, 2015. Historically over the last three years our cash conversion cycle has fluctuated seasonally and has a normal range of 12 to 19 days. The increase in the cash conversion cycle for December 31, 2016 over the prior year is due mainly to a significant increase in our inventories due to a large project for one of our major customers.

Cash flows related to investing activities. Cash used in investing activities was $47.0 million during the nine months ended December 31, 2016. Cash used in investing activities during the nine months ended December 31, 2016 was primarily driven by issuance of financing receivables of $114.7 million, cash used in acquisitions of $9.5 million, purchases of property, equipment and operating lease equipment of $7.3 million, and purchases of assets to be leased or financed of $5.9 million, which was partially offset by cash proceeds from the repayment financing receivable of $44.1 million, the sale of financing receivables of $39.9 million, and proceeds from the sale of property, equipment and operating lease equipment of $6.4 million.

Cash used in investing activities was $44.3 million during the nine months ended December 31, 2015, compared to cash used in investing activities of $31.7 million during the same period last year. Cash used in investing activities during the nine months ended December 31, 2015 was primarily driven by issuance of financing receivables of $102.6 million, the acquisition of the business of IGX of $16.6 million and purchases of property, equipment, and operating lease equipment of $17.0 million, purchase of assets yet to be leased of $10.8 million, which was partially offset by cash proceeds from the repayment financing receivable of $49.2 million, proceeds from the sale of financing receivables of $48.2 million, and proceeds from the sale of property, equipment and operating lease equipment of $5.3 million.

Cash flows from financing activities. Cash used in financing activities was $8.2 million during the nine months ended December 31, 2016, which was primarily due to $30.5 million in cash used for the repurchase of common stock, and net repayment on the floor plan facility of $5.6 million, partially offset by to net borrowings of non-recourse and recourse notes payable of $28.6 million. Cash provided by financing activities was $52.5 million during the nine months ended December 31, 2015, which was primarily due to net borrowings on the floor plan facility of $28.6 million and borrowings net of repayments of non-recourse and recourse notes payable of $27.6 million, which was partially offset by $2.5 million in cash used for the repurchase of common stock.

Non-Cash Activities

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

Liquidity and Capital Resources

We may utilize non-recourse notes payable to finance approximately 80% to 100% of the purchase price of the assets being leased or financed by our customers. Any balance of the purchase price remaining after non-recourse funding and any upfront payments received from the customer (our equity investment in the equipment) must generally be financed by cash flows from our operations, the sale of the equipment leased to third parties, or other internal means. Although we expect that the credit quality of our financing arrangements and our residual return history will continue to allow us to obtain such financing, such financing may not be available on acceptable terms, or at all.

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

At December 31, 2016, our non-recourse notes payable increased 18.9% to $52.4 million, as compared to $44.1 million at March 31, 2016. Recourse notes payable decreased 52.0% to $1.6 million as of December 31, 2016 compared to $3.3 million as of March 31, 2016.

Whenever desirable, we arrange for equity investment financing, which includes selling lease payments, including the residual portions, to third parties and financing the equity investment on a non-recourse basis. We generally retain

customer control and operational services, and have minimal residual risk. We usually reserve the right to share in remarketing proceeds of the equipment on a subordinated basis after the investor has received an agreed-to return on its investment.

Credit Facility — Technology

Our subsidiary, ePlus Technology, inc., has a financing facility from WFCDF to finance its working capital requirements for inventories and accounts receivable. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. This facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as chattel paper, receivables and inventory. As of December 31, 2016, the facility had an aggregate limit of the two components of $250.0 million with an accounts receivable sub-limit of $30.0 million.

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Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2016. Interest on the facility is assessed at a rate of the One Month LIBOR plus two and one half percent if the payments are not made on the three specified dates each month. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also requires other operational reports be provided on a regular basis. Either party may terminate the facility with 90 days advance written notice.

We are not, and do not believe that we are reasonably likely to be, in breach of the WFCDF credit facility. In addition, we do not believe that the covenants of the WFCDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by WFCDF requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by a certain date. We have delivered the annual audited financial statements for the year ended March 31, 2016, as required. The loss of the WFCDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

Floor Plan Component

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

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

| Maximum Credit Limit at December 31, 2016 | Balance as of December 30, 2016 | Maximum Credit Limit at March 31, 2016 | Balance as of March 31, 2016 |
|---|---|---|---|
| $ 250,000 | $ 120,854 | $ 250,000 | $ 121,893 |

Accounts Receivable Component

Included within the credit facility, ePlus Technology, inc. has an accounts receivable component from WFCDF, which has a revolving line of credit. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no balance outstanding for the accounts receivable component at December 31, 2016 or March 31, 2016, while the maximum credit limit was $30.0 million for both periods.

Performance Guarantees

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



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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 December 31, 2016, we were not involved in any unconsolidated special purpose entity transactions.

Adequacy of Capital Resources

The continued implementation of our business strategy will require a significant investment in both resources and managerial focus. In addition, we may selectively acquire other companies that have attractive customer relationships and skilled sales and/or engineering forces. We may also start offices in new geographic areas, which may require a significant investment of cash. We may also acquire technology companies to expand and enhance the platform of bundled solutions to provide additional functionality and value-added services. We may continue to use our internally generated funds to finance investments in leased assets or investments in notes receivables due from our customers. 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.

Inflation

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

Potential Fluctuations in Quarterly Operating Results

Our future quarterly operating results and the market price of our common stock may fluctuate. In the event our revenues or earnings for any quarter are less than the level expected by securities analysts or the market in general, such shortfall could have an immediate and significant adverse impact on the market price of our common stock. Any such adverse impact could be greater if any such shortfall occurs near the time of any material decrease in any widely followed stock index or in the market price of the stock of one or more public equipment leasing and financing companies, IT resellers, software competitors, 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 currency fluctuations, reduction in IT spending, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, the reduction of manufacturer incentive programs, and other factors. Quarterly operating results could also fluctuate as a result of our sale of equipment in our lease portfolio at the expiration of a lease term or prior to such expiration, to a lessee or to a third party and the transfer of financial assets. Sales of equipment and transfers of financial assets may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. See Part I, Item 1A, “Risk Factors,” in our 2016 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 WFCDF facility, bear interest at a fixed rate. Because the interest rate on these instruments is fixed, changes in interest rates will not directly impact our cash flows. Borrowings under the WFCDF facility bear interest at a market-based variable rate. As of December 31, 2016, the aggregate fair value of our recourse and non-recourse borrowings approximated their carrying value.

In December 2015, we purchased 100% of the stock of IGXGlobal UK, Ltd, a company formed and operated in the United Kingdom with a functional currency of British Pounds. The company also transacts in Euros and U. S. Dollars. There is a potential for exposure to fluctuations in foreign currency rates resulting primarily from the transaction exposure associated with the preparation of our consolidated financial statements. In addition, we have foreign currency exposure when transactions are not denominated in the subsidiary’s functional currency. To date, our United Kingdom operations are insignificant in relation to total consolidated operations and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.



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We have operations in Canada and Iceland. As such, we have entered into lease contracts and non-recourse, fixed-interest-rate financing denominated in Canadian dollars and in Icelandic krona. In our fiscal year beginning April 1, 2016, we began entering in financing transactions and non-recourse, fixed-interest-rate financing denominated in British Pounds in the United Kingdom. To date, our foreign operations have been insignificant and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position.

## Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, or "disclosure controls," as defined in the Exchange Act Rule 13a-15(e). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2016.

### Changes in Internal Controls

There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2016, 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

We are not currently a party to any legal proceedings with loss contingencies that are expected to be material. From time to time, we may be or have been a plaintiff, or may be or have been named as a defendant, in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. Legal proceedings which may arise in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, tax audits, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract

provisions, employment-related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. We attempt to ameliorate the effect of potential litigation through insurance coverage and contractual protections such as rights to indemnifications and limitations of liability. 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, however, 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.

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Item 1A. Risk Factors

There has not been any material change in the risk factors previously disclosed in Part I, Item 1A of our 2016 Annual Report.

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 nine months ended December 31, 2016.

| 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, 2016 through April 30, 2016 | 113,035 | $ 80.70 | 113,035 | 270,663 | (2 ) |
| May 1, 2016 through May 31, 2016 | 78,659 | $ 81.59 | 78,659 | 192,004 | (3 ) |
| June 1, 2016 through June 30, 2016 | 64,834 | $ 84.78 | 35,098 | 156,906 | (4 ) |
| July 1, 2016 through July 31, 2016 | 83,510 | $ 82.47 | 83,510 | 73,396 | (5 ) |
| August 1, 2016 through August 16, 2016 | 18,179 | $ 82.88 | 18,179 | 55,217 | (6 ) |
| August 19, 2016 through August 31, 2016 | - | $ - | - | 500,000 | (7 ) |
| September 1, 2016 through September 30, 2016 | - | $ - | - | 500,000 | (8 ) |
| October 1, 2016 through October 31, 2016 | - | $ - | - | 500,000 | (9 ) |
| November 1, 2016 through November 30, 2016 | - | $ - | - | 500,000 | (10) |
| December 1, 2016 through December 31, 2016 | - | $ - | - | 500,000 | (11) |

(1) All shares acquired were in open-market purchases, except for 29,736 shares, which were repurchased in June 2016 to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.

(2) The share purchase authorization in place for the month ended April 30, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of April 30, 2016, the remaining authorized shares to be purchased were 270,663.

(3) The share purchase authorization in place for the month ended May 31, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of May 31, 2016, the remaining authorized shares to be purchased were 192,004.

(4) The share purchase authorization in place for the month ended June 30, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of June 30, 2016, the remaining authorized shares to be purchased were 156,906.

(5) The share purchase authorization in place for the month ended July 31, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of July 31, 2016, the remaining authorized shares to be purchased were 73,396.

(6) As of August 16, 2016 the authorization under the then existing share purchase plan expired.

(7) On August 9, 2016, the board of directors authorized the company to repurchase up to 500,000 shares of its outstanding common stock commencing on August 19, 2016 through August 18, 2017. As of August 31, 2016, the remaining authorized shares to be purchased were 500,000.

(8) The share purchase authorization in place for the month ended September 30, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of September 30, 2016, the remaining authorized shares to be purchased were 500,000.

(9) The share purchase authorization in place for the month ended October 31, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of October 31, 2016, the remaining authorized shares to be purchased were 500,000.

(10) The share purchase authorization in place for the month ended November 30, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of November 30, 2016, the remaining authorized shares to be purchased were 500,000.

(11) The share purchase authorization in place for the month ended December 31, 2016 had purchase limitations on the number of shares of up to 500,000 shares. As of December 31, 2016, the remaining authorized shares to be purchased were 500,000.

The timing and expiration date of the current stock repurchase authorizations are included in Note 10, “Stockholders’ Equity” to our unaudited condensed consolidated financial statements included elsewhere in this report.

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Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

| | |
|---|---|
| 31.1 | Certification of the Chief Executive Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a). |
| 31.2 | Certification of the Chief Financial Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a). |
| 32 | Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. § 1350. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

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

ePlus inc.

Date: February 2, 2017 /s/ MARK P. MARRON
By: Mark P. Marron,
Chief Executive Officer and
President
(Principal Executive Officer)

Date: February 2, 2017 /s/ ELAINE D. MARION
By: Elaine D. Marion
Chief Financial Officer
(Principal Financial Officer)