EPLUS INC
Form 10-Q/A
February 17, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended December 31, 2003
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from____ to ____ .

Commission file number: 0-28926

ePlus inc.

(Exact name of registrant as specified in its charter)

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

400 Herndon Parkway, Herndon, VA 20170
(Address, including zip code, of principal offices)

Registrant's telephone number, including area code: (703) 834-5710

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [_X_] No [___]

The number of shares of common stock outstanding as of February 10, 2004 was 9,242,158.

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ePlus inc. AND SUBSIDIARIES

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

	As of March 31, 2003	As
ASSETS		
Cash and cash equivalents	$ 27,784,090	
Accounts receivable, net of allowance for doubtful accounts of $3,346,055 and $2,573,114 as of March 31, 2003 and December 31, 2003, respectively	38,384,841	
Notes receivable	53,098	
Inventories	1,373,168	
Investment in leases and leased equipment - net	182,169,324	
Property and equipment - net	5,249,087	

Goodwill	19,147,132
Other assets	4,779,946
TOTAL ASSETS	$278,940,686
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES	
Accounts payable - equipment	$ 5,635,776
Accounts payable - trade	25,914,385
Accrued expenses and other liabilities	14,598,802
Income taxes payable	-
Recourse notes payable	2,736,298
Nonrecourse notes payable	115,678,353
Deferred tax liability	4,760,029
Total Liabilities	$169,323,643
COMMITMENTS AND CONTINGENCIES	-
STOCKHOLDERS' EQUITY	
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued or outstanding	-
Common stock, $.01 par value; 50,000,000 shares authorized, 10,540,135 issued and 9,451,651 outstanding at March 31, 2003; and 25,000,000 shares authorized, 10,681,187 issued and 9,264,458 outstanding at December 31, 2003	$ 105,400
Additional paid-in capital	62,905,727
Treasury Stock, at cost, 1,088,484 at March 31, 2003 and 1,415,784 shares at December 31, 2003	(7,511,124)
Retained earnings	54,057,732
Accumulated other comprehensive income - Foreign currency translation adjustment	59,308
Total Stockholders' Equity	109,617,043
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$278,940,686

See Notes to Condensed Consolidated Financial Statements.

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

	Three month Decembe
	2002
REVENUES	
Sales of product	$ 55,458,839
Sales of leased equipment	897,984
	56,356,823
Lease revenues	12,381,795
Fee and other income	4,525,048
	16,906,843
TOTAL REVENUES	73,263,666

COSTS AND EXPENSES	
Cost of sales, product	49,019,350
Cost of sales, leased equipment	922,926
	49,942,276
Direct lease costs	2,140,982
Professional and other fees	944,501
Salaries and benefits	10,786,703
General and administrative expenses	3,132,800
Interest and financing costs	1,920,372
	18,925,358
TOTAL COSTS AND EXPENSES	68,867,634
EARNINGS BEFORE PROVISION FOR INCOME TAXES	4,396,032
PROVISION FOR INCOME TAXES	1,802,376
NET EARNINGS	$ 2,593,656
NET EARNINGS PER COMMON SHARE - BASIC	$ 0.26
NET EARNINGS PER COMMON SHARE - DILUTED	$ 0.26
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	9,992,133
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	10,028,509

See Notes to Condensed Consolidated Financial Statements.

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

	Nine months December
	2002
REVENUES	
Sales of product	$174,451,748
Sales of leased equipment	5,509,288
	179,961,036
Lease revenues	35,747,237
Fee and other income	12,215,821
	47,963,058

TOTAL REVENUES	227,924,094
COSTS AND EXPENSES	
Cost of sales, product	152,939,765
Cost of sales, leased equipment	5,457,927
	158,397,692
Direct lease costs	4,471,986
Professional and other fees	2,411,259
Salaries and benefits	33,599,040
General and administrative expenses	10,391,118
Interest and financing costs	6,597,048
	57,470,451
TOTAL COSTS AND EXPENSES	215,868,143
EARNINGS BEFORE PROVISION FOR INCOME TAXES	12,055,951
PROVISION FOR INCOME TAXES	4,941,509
NET EARNINGS	$ 7,114,442
NET EARNINGS PER COMMON SHARE - BASIC	$ 0.70
NET EARNINGS PER COMMON SHARE - DILUTED	$ 0.69
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	10,228,007
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	10,280,813

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months December 2002
Cash Flows From Operating Activities:	
Net earnings	$ 7,114,442
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	5,181,150
Provision for credit losses	177,602
Deferred taxes	6,429,501
Payments from lessees directly to lenders - operating leases	(376,468)

Loss on disposal of property and equipment	65,850
Changes in:	
Accounts receivable	(20,331,096)
Other receivables	35,482
Inventories	(506,235)
Other assets	3,385,168
Accounts payable - equipment	(2,187,075)
Accounts payable - trade	5,789,503
Salaries and commissions payable, accrued expenses and other liabilities	(2,228,351)
Net cash provided by operating activities	2,549,473
Cash Flows From Investing Activities:	
Purchases of operating lease equipment	(6,941,090)
Increase in investment in direct financing and sales-type leases	(24,444,647)
Purchases of property and equipment	(1,213,413)
Proceeds from sale of operating equipment	-
Purchase of certain assets of Digital Paper Corporation	-
Net cash used in investing activities	(32,599,150)
Cash Flows From Financing Activities:	
Borrowings:	
Nonrecourse	92,505,259
Recourse	1,448,388
Repayments:	
Nonrecourse	(65,004,890)
Recourse	(2,035,004)
Pay-off of recourse debt due to settlement	(99,659)
Write-off of nonrecourse debt due to bankruptcy	(1,838,286)
Proceeds from issuance of capital stock, net of expenses	415,998
Purchase of treasury stock	(6,021,123)
Net repayment of lines of credit	(1,000,302)
Net cash provided by financing activities	18,370,381
Effect of Exchange Rate Changes on Cash	-
Net Decrease in Cash and Cash Equivalents	(11,679,296)

	Nine Months December
	2002
Cash and Cash Equivalents, Beginning of Period	28,223,503
Cash and Cash Equivalents, End of Period	$ 16,544,207
Supplemental Disclosures of Cash Flow Information:	
Cash paid for interest	$ 6,037,026

Cash paid for income taxes	$ 1,333,698

Noncash Investing and Financing Activities:
The Company purchased certain assets of Digital Paper Corporation for $1,601,632. In conjunction with this acquisition, liabilities were assumed as follows:

Fair value of assets acquired
Cash paid for the assets
Liabilities assumed

See Notes To Condensed Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements of ePlus inc. and subsidiaries (the "Company") included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. All adjustments made were normal, recurring accruals. Certain prior period amounts have been reclassified to conform to the current period's presentation.

Certain information and note disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to SEC rules and regulations.

These interim financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K (No. 0-28926) for the year ended March 31, 2003 (the "Company's 2003 Form 10-K"). Operating results for the interim periods are not necessarily indicative of results for an entire year.

2. STOCK BASED COMPENSATION

As of December 31, 2003, the Company had three stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations issued by the Financial Accounting Standards Board. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure," to stock-based employee compensation:

	Three Months Ended December 31,		Nine Months December
	2002	2003	2002

Net earnings, as reported	$2,593,656	$2,593,579	$7,114,442	$7,
Stock based compensation expense	(913,482)	(626,838)	(2,740,446)	(1,
Net earnings, pro forma	$1,680,174	$1,966,741	$4,373,996	$5,
Basic earnings per share, as reported	$0.26	$0.28	$0.70	
Basic earnings per share, pro forma	$0.17	$0.21	$0.43	
Diluted earnings per share, as reported	$0.26	$0.26	$0.69	
Diluted earnings per share, pro forma	$0.17	$0.20	$0.43	

3. RECLASSIFICATIONS

Certain service revenues and related costs which were directly related to the sale of certain products have been reclassified for the three and nine months ended December 31, 2002 to conform to our current reporting format. For the three months ended December 31, 2002, $2.6 million of revenue was reclassified from fee and other income to sales of product, and $1.0 million of costs were reclassified from salaries and benefits to cost of sales, product. For the nine months ended December 31, 2002, $6.6 million of revenue was reclassified from fee and other income to sales of product, and $2.4 million of costs were reclassified from salaries and benefits to cost of sales, product.

4. INVESTMENTS IN LEASES AND LEASED EQUIPMENT - NET

Investments in leases and leased equipment - net consists of the following:

	As of March 31, 2003 (In Thousands)	December 3
Investment in direct financing and sales-type leases - net	$ 173,394	$
Investment in operating lease equipment - net	8,775	
Investments in leases and leased equipment - net	$ 182,169	$

The Company's net investment in leases is collateral for non-recourse and recourse equipment notes, if any.

INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES

The Company's investment in direct financing and sales-type leases consists of the following:

	As of March 31, 2003 (In Thousands)	December 3
Minimum lease payments	$ 168,385	$

Estimated unguaranteed residual value	26,631	
Initial direct costs, net of amortization (1)	3,072	
Less: Unearned lease income	(21,287)	
Reserve for credit losses	(3,407)	
Investment in direct financing and sales-type leases - net	$ 173,394	$

(1) Initial direct costs are shown net of amortization of $3,691 and $2,125 at March 31 and December 31, 2003, respectively.

INVESTMENT IN OPERATING LEASE EQUIPMENT

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

	As of	
	March 31, 2003	December 3
	(In Thousands)	
Cost of equipment under operating leases	$ 12,824	$
Less: Accumulated depreciation and amortization	(4,049)	
Investment in operating lease equipment - net	$ 8,775	$

5. RESERVES FOR CREDIT LOSSES

As of March 31 and December 31, 2003, the Company's reserves for credit losses were $6,753,431 and $6,004,490, respectively. The Company's reserves for credit losses are segregated between our accounts receivable and our leased assets as follows (in thousands):

	Accounts Receivable	Leased Assets	Tota
Balance April 1, 2002	$3,719	$3,052	$
Provision for bad debts	176	440	
Recoveries	(140)	-	
Write-offs and other	(409)	(85)	
Balance March 31, 2003	$3,346	$3,407	$
Provision for bad debts	$ 271	$ 24	
Write-offs and other	(1,044)	-	
Balance December 31, 2003	$2,573	$3,431	

6. SEGMENT REPORTING

The Company manages its business segments on the basis of the products and services offered. The Company's reportable segments consist of its traditional financing business unit and its technology sales business unit. The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. The technology sales business unit sells information technology ("IT") equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides Internet-based business-to-business supply chain management solutions for information technology and other operating resources. The Company evaluates segment performance on the basis of segment net earnings.

Both segments utilize the Company's proprietary software and services throughout the organization. Sales and services and related costs of e-procurement software are included in the technology sales business unit. Service fees generated by our proprietary software and services are also included in the financing business unit.

The accounting policies of the financing and technology sales business units are the same as those described in Note 1, "Organization and Summary of Significant Accounting Policies" in the Company's 2003 Form 10-K. Corporate overhead expenses are allocated on the basis of revenue volume, estimates of actual time spent by corporate staff, and asset utilization, depending on the type of expense.

	Financing Business Unit	Technology Sales Business Unit	
Three months ended December 31, 2002			
Sales	$ 1,365,673	$ 54,991,150	$ 56,
Lease revenues	12,381,795	-	12,
Fee and other income	3,388,575	1,136,473	4,
Total revenues	17,136,043	56,127,623	73,
Cost of sales	1,572,120	48,370,156	49,
Direct lease costs	2,140,982	-	2,
Selling, general and administrative and professional fees expenses	6,711,382	8,152,622	14,
Segment earnings	6,711,559	(395,155)	6,
Interest expense	1,794,348	126,024	1,
Earnings before income taxes	$ 4,917,211	$ (521,179)	$ 4,
Assets	$223,773,469	$ 49,676,309	$273,

	Financing Business	Technology Sales Business

	Unit	Unit	
Three months ended December 31, 2003			
Sales	$ 701,084	$ 62,624,077	$ 63,
Lease revenues	12,863,921	-	12,
Fee and other income	1,482,004	2,129,333	3,
Total revenues	15,047,009	64,753,410	79,
Cost of sales	769,311	54,993,200	55,
Direct lease costs	3,221,144	-	3,
Selling, general and administrative and professional fees expenses	5,624,461	9,232,959	14,
Segment earnings	5,432,093	527,251	5,
Interest expense	1,590,546	46,167	1,
Earnings before income taxes	$ 3,841,547	$ 481,084	$ 4,
Assets	$ 252,146,948	$ 44,437,619	$ 296,
Nine months ended December 31, 2002			
Sales	$ 6,896,086	$ 173,064,950	$ 179,
Lease revenues	35,747,237	-	35,
Fee and other income	8,456,211	3,759,610	12,
Total revenues	51,099,534	176,824,560	227,
Cost of sales	7,510,294	150,887,398	158,
Direct lease costs	4,471,986	-	4,
Selling, general and administrative and professional fees expenses	20,797,344	25,604,073	46,
Segment earnings	18,319,910	333,089	18,
Interest expense	6,246,410	350,638	6,
Earnings before income taxes	$ 12,073,500	$ (17,549)	$ 12,
Assets	$ 223,773,469	$ 49,676,309	$ 273,
Nine months ended December 31, 2003			
Sales	$ 2,120,262	$ 196,880,830	$ 199,
Lease revenues	38,150,085	-	38,
Fee and other income	2,891,386	5,262,105	8,
Total revenues	43,161,733	202,142,935	245,
Cost of sales	2,049,166	173,589,704	175,
Direct lease costs	7,966,044	-	7,
Selling, general and administrative and professional fees expenses	17,173,997	26,646,463	43,
Segment earnings	15,972,526	1,906,768	17,
Interest expense	4,994,633	215,023	5,
Earnings before income taxes	$ 10,977,893	$ 1,691,745	$ 12,
Assets	$ 252,146,948	$ 44,437,619	$ 296,

7. EARNINGS PER SHARE

The weighted average number of common shares used in determining basic and diluted net income per share for the three and nine months ended December 31, 2002 and 2003 are as follows:

	Three Months Ended December 31,		Nine Months December	
	2002	2003	2002	
Basic common shares outstanding	9,992,133	9,308,979	10,228,007	9,
Common stock equivalents	36,376	659,266	52,806	
Diluted common shares outstanding	10,028,509	9,968,245	10,280,813	10,

8. COMMITMENTS AND CONTINGENCIES

The Company is not party to any material legal proceedings. We are engaged in ordinary and routine litigation incidental to our business. While we cannot predict the outcome of these various legal proceedings, it is management's opinion that the resolution of these matters will not have a material adverse effect on our financial position or results of operations.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of results of operations and financial condition of the Company should be read in conjunction with the condensed consolidated financial statements and the related notes included in Item 1 of this report, and the Company's 2003 Form 10-K.

Overview

Certain statements contained herein are not based on historical fact, but are forward-looking statements that are based upon numerous assumptions about future conditions that may not occur. 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. These risks and uncertainties include, but are not limited to, the existence of demand for, and acceptance of, the Company's services, economic conditions, the impact of competition and pricing, results of financing efforts and other factors affecting the Company's business that are beyond our control. The Company undertakes no obligation and does not intend to update, revise or otherwise publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances. See "Factors That May Affect Future Operating Results."

Our results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, customer demand for our products and

services, supplier costs, interest rate fluctuations and differences between estimated residual values and actual amounts realized related to the equipment we lease. Operating results could also fluctuate as a result of the sales of equipment in our lease portfolio prior to the expiration of the lease term to the lessee or to a third party. Such sales of leased equipment prior to the expiration of the lease term may have the effect of increasing revenues and net earnings during the period in which the sale occurs, and reducing revenues and net earnings otherwise expected in subsequent periods. See "Potential Fluctuations in Quarterly Operating Results."

We currently derive the majority of our revenue from sales and financing of information technology and other assets. We have expanded our product and service offerings under the Enterprise Cost Management ("eECM") model which represents the continued evolution of our original implementation of ePlus e-commerce products entitled ePlusSuite. Our eECM model is our framework for combining IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services.

Our total sales and marketing staff consisted of approximately 178 people as of December 31, 2003, located at our 32 current locations, of which 31 are in the United States and 1 is in Canada.

On May 15, 2001, we acquired from ProcureNet, Inc. the e-commerce procurement software asset, products, and software technology for cleaning and categorizing product descriptions for e-commerce catalogues. On October 10, 2003, the Company acquired the software business of Digital Paper Corporation, a provider of document access and collaboration solutions. These combined software products and services and the associated expenses with these business acquisitions have substantially increased our expenses, and the ability to sell these services and products is expected to fluctuate depending on the customer demand for these products and services, which to date is still unproven. These products and services are included in our technology sales business unit segment, combined with our other sales of IT products and services. Our leasing and financing activities are included in our financing business unit segment in our financial statements.

As a result of our acquisitions and changes in the number of sales locations, the Company's historical results of operations and financial position may not be indicative of its future performance over time.

CRITICAL ACCOUNTING POLICIES

The manner in which lease finance transactions are characterized and reported for accounting purposes has a major impact upon reported revenue and net earnings. Lease accounting methods critical to our business are discussed below.

We classify our lease transactions in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases," as: (1) direct financing; (2) sales-type; or (3) operating leases. Revenues and expenses between accounting periods for each lease term will vary depending upon the lease classification.

For financial statement purposes, we present revenue from all three classifications in lease revenues, and costs related to these leases in direct lease costs.

DIRECT FINANCING AND SALES-TYPE LEASES. Direct financing and sales-type leases transfer substantially all benefits and risks of equipment ownership to the customer. A lease is a direct financing or sales-type lease if the

creditworthiness of the customer and the collectability of lease payments are reasonably certain and it meets one of the following criteria: (1) the lease transfers ownership of the equipment to the customer by the end of the lease term; (2) the lease contains a bargain purchase option; (3) the lease term at inception is at least 75% of the estimated economic life of the leased equipment; or (4) the present value of the minimum lease payments is at least 90% of the fair market value of the leased equipment at the inception of the lease.

Direct financing leases are recorded as investment in direct financing leases upon acceptance of the equipment by the customer. At the commencement of the lease, unearned lease income is recorded which represents the amount by which the gross lease payments receivable plus the estimated residual value of the equipment exceeds the equipment cost. Unearned lease income is recognized, using the interest method, as lease revenue over the lease term.

Sales-type leases include a dealer profit or loss that is recorded by the lessor at the inception of the lease. The dealer's profit or loss represents the difference, at the inception of the lease, between the fair value of the leased property and its cost or carrying amount. The equipment subject to such leases may be obtained in the secondary marketplace, but most frequently is the result of re-leasing our own portfolio. This profit or loss that is recognized at lease inception is included in net margin on sales-type leases. For equipment supplied from our technology sales business unit subsidiaries, the dealer margin is presented in equipment sales revenue and cost of equipment sales. Interest earned on the present value of the lease payments and residual value is recognized over the lease term using the interest method and is included in our lease revenues.

OPERATING LEASES. All leases that do not meet the criteria to be classified as direct financing or sales-type leases are accounted for as operating leases. Rental amounts are accrued on a straight-line basis over the lease term and are recognized as lease revenue. Our cost of the leased equipment is recorded on the balance sheet as investment in leases and leased equipment and is depreciated on a straight-line basis over the lease term to our estimate of residual value. Revenue, depreciation expense and the resulting profit for operating leases are recorded on a straight-line basis over the life of the lease.

As a result of these three classifications of leases for accounting purposes, the revenues resulting from the "mix" of lease classifications during an accounting period will affect the profit margin percentage for such period and such profit margin percentage generally increases as revenues from direct financing and sales-type leases increase. Should a lease be financed, the interest expense declines over the term of the financing as the principal is reduced.

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

We evaluate residual values on an ongoing basis and record any required changes in accordance with SFAS No. 13. Residual values are affected by equipment supply and demand and by new product announcements by manufacturers. In accordance with accounting principles generally accepted in the United States of America,

residual value estimates are adjusted downward when such assets are impaired.

We seek to realize the estimated residual value at lease termination through: (1) renewal or extension of the original lease; (2) sale of the equipment either to the lessee or on the secondary market; or (3) lease of the equipment to a new customer. The difference between the proceeds of a sale and the remaining estimated residual value is recorded as a gain or loss in lease revenues when title is transferred to the lessee, or, if the equipment is sold on the secondary market, in equipment sales revenues and cost of equipment sales when title is transferred to the buyer. For lease periods subsequent to the initial term, month-to-month continuation transactions, our policy regarding recognized revenues is upon the payment by the lessee.

INITIAL DIRECT COSTS. Initial direct costs related to the origination of direct financing or operating leases are capitalized and recorded as part of the net investment in direct financing leases, or net operating lease equipment, and are amortized over the lease term.

SALES OF PRODUCT. Sales of product includes the following types of transactions: (1) sales of new or used equipment which is not subject to any type of lease; (2) service revenue in our technology sales business unit; (3) sales of off-lease equipment to the secondary market; and (4) sales of procurement software. Sales of new or used equipment are recognized upon shipment and sales of off-lease equipment are recognized when constructive title passes to the purchaser. Service revenue is recognized as the related services are rendered.

SOFTWARE SALES AND RELATED COSTS. Revenue from sales of procurement software is recognized in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, "Software Revenue Recognition", as amended by SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2," and SOP 98-9, "Modification of SOP 97-2 With Respect to Certain Transactions." We recognize revenue when all the following criteria exist: there is persuasive evidence that an arrangement exists, delivery has occurred, no significant obligations by the Company with regard to implementation remain, the sales price is determinable, and it is probable that collection will occur. Our accounting policy requires that revenue earned and related costs incurred on software arrangements involving multiple elements be allocated to each element on the relative fair values of the elements and recognized when earned. Revenue related to maintenance and support is recognized ratably over the maintenance term (usually one year) and revenue allocated to training, implementation or other services is recognized as the services are performed.

SALES OF LEASED EQUIPMENT. Sales of leased equipment consists of sales of equipment subject to an existing lease, under which we are lessor, including any underlying financing related to the lease. Sales of equipment subject to an existing lease are recognized when constructive title passes to the purchaser.

OTHER SOURCES OF REVENUE. Amounts charged for Procure+, our e-procurement software package, are recognized as services are rendered. Amounts charged for Manage+, our asset management software service, are recognized on a straight-line basis over the period the services are provided. Fee and other income results from: (1) income from events that occur after the initial sale of a financial asset; (2) re-marketing fees; (3) brokerage fees earned for the placement of financing transactions; (4) agent fees received from various manufacturers in the reseller business; and (5) interest and other miscellaneous income. These revenues are included in fee and other income in our consolidated statements of earnings.

RESERVE FOR CREDIT LOSSES. The reserve for credit losses is maintained at a level believed by management to be adequate to absorb potential losses inherent in the Company's lease and accounts receivable portfolio. Management's determination of the adequacy of the reserve is based on an evaluation of

historical credit loss experience, current economic conditions, volume, growth, the composition of the lease portfolio, and other relevant factors. The reserve is increased by provisions for potential credit losses charged against income. Accounts are either written off or written down when the loss is both probable and determinable, after giving consideration to the customer's financial condition, the value of the underlying collateral and funding status (i.e., discounted on a non-recourse or recourse basis).

CAPITALIZATION OF COSTS OF SOFTWARE FOR INTERNAL USE. The Company has capitalized certain costs for the development of internal-use software under the guidelines of SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." These capitalized costs are included in the accompanying condensed consolidated balance sheets as a component of property and equipment - net. As of December 31, 2003, capitalized costs, net of amortization, totaled $1,685,623 as compared to $1,316,123 as of March 31, 2003.

CAPITALIZATION OF COSTS OF SOFTWARE TO BE MADE AVAILABLE TO CUSTOMERS. In accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," software development costs are expensed as incurred until technological feasibility has been established, at such time such costs are capitalized until the product is made available for release to customers. These capitalized costs are included in the accompanying condensed consolidated balance sheets as a component of other assets. The Company had $1,128,244 of capitalized costs as of December 31, 2003 and $293,265 as of March 31, 2003.

RESULTS OF OPERATIONS - Three and Nine Months Ended December 31, 2003 Compared to Three and Nine Months Ended December 31, 2002

Total revenues generated by the Company during the three-month period ended December 31, 2003 were $79,800,419 compared to revenues of $73,263,666 during the comparable period in the prior fiscal year, an increase of 8.9%. Total revenues generated by the Company during the nine-month period ended December 31, 2003 were $245,304,668 compared to revenues of $227,924,094 during the comparable period in the prior fiscal year, an increase of 7.6%. The increases are primarily the result of increased sales of product. The Company's revenues are composed of sales and other revenue, and may vary considerably from period to period. See "POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS".

Sales revenue, which includes sales of product and sales of leased equipment, increased 12.4% to $63,325,161 during the three-month period ended December 31, 2003, as compared to $56,356,823 generated during the corresponding period in the prior fiscal year. For the nine-month period ended December 31, 2003, sales increased 10.6% to $199,001,092 from $179,961,036 generated during the corresponding period in the prior fiscal year.

Sales of product are generated primarily through the Company's technology sales business unit subsidiaries and represented 100% of total sales revenue for the three and nine months ended December 31, 2003 as compared to 98.4% and 96.9% for the three and nine months ended December 31, 2002. Sales of product increased 14.2% to $63,325,161 during the three months ended December 31, 2003 compared to $55,458,839 generated during the comparable period in the prior fiscal year. Sales of product increased 14.1% to $199,001,092 during the nine months ended December 31, 2003 compared to $174,451,748 generated during the comparable period in the prior fiscal year. The increase is due to a general improvement in the economy and increased demand from customers. Included in the sales of product in our technology sales business unit are certain service revenues which are bundled with sales of equipment and are integral to the successful delivery

of such equipment. The increase was a result of higher sales within our technology sales business unit subsidiaries. The Company realized a gross margin on sales of product of 11.9% and 11.7% for the three and nine months ended December 31, 2003 and 11.6% and 12.3% for the three and nine months ended December 31, 2002. The Company's gross margin on sales of product is affected by the mix and volume of products sold.

The Company also recognizes revenue from the sale of leased equipment. During the three months ended December 31, 2003 and 2002, the Company recognized $ 0.00 and $ 897,984, respectively. During the nine months ended December 31, 2003 the

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Company recognized no sales of leased equipment, but recognized $5,509,288 during the nine months ended December 31, 2002. During the nine months ended December 31, 2002, the Company recognized a gross margin on leased equipment sales of 0.9%. Leased equipment sales reflects equity that the Company sold to outside investors. Leases that are not equity-sold to investors remain on the Company's books and lease earnings are recognized accordingly. In addition, the revenue and gross margin recognized on sales of leased equipment can vary significantly depending on the nature and timing of the sale.

The Company's lease revenues increased 3.9% to $12,863,921 for the three months ended December 31, 2003 compared with $12,381,795 during the corresponding period in the prior fiscal year. For the nine-month period ending December 31, 2003, lease revenues increased 6.7% to $38,150,085 compared with $35,747,237 during the corresponding period in the prior fiscal year. The increase is attributable to an increase in rents from our increasing operating lease portfolio, as well as the timing of any debt funding recognized in accordance with SFAS No. 140, offset somewhat by decreases in renewal rent revenue and decreased earnings on our direct finance lease portfolio.

For the three months ended December 31, 2003, fee and other income decreased 20.2% to $3,611,337 as compared to $4,525,048 in the comparable period in the prior fiscal year. For the nine months ended December 31, 2003, fee and other income decreased 33.3% to $8,153,491, as compared to $12,215,821 in the comparable period in the prior fiscal year. Fee and other income includes revenues from adjunct services and fees, including broker and agent fees, support fees, warranty reimbursements' license fees, and interest income. The decrease in fee and other income is attributable to settlement money of $2.5 million received from one of the Company's equipment vendors during the nine months ended December 31, 2002, while no such settlement income was received for the nine months ended December 31, 2003. In addition, ePlus Government earned fee income totaling $2.4 million during the December 2002 quarter, as compared to the December 2003 quarter earnings of $0.2 million. During the nine-month period ended December 31, 2002, we received approximately $0.8 million in management fee income from one customer that has no corresponding fee income during the comparable period in the current fiscal year. Lastly, starting on April 1, 2003, certain service revenues in fee income were reclassified to sales of equipment. The Company's fee and other income includes earnings from certain transactions which are in the Company's normal course of business, but there is no guarantee that future transactions of the same nature, size or profitability will occur. As the three months ended December 31, 2003 indicate, the Company's ability to consummate such transactions, and the timing thereof, may depend largely upon factors outside the direct control of management. The earnings from these types of transactions in a particular period may not be indicative of the earnings that can be expected in future periods.

The Company's direct lease costs increased 50.5% and 78.1% to $3,221,144 and $7,966,044 during the three and nine-month periods ended December 31, 2003 as compared to the same periods in the prior fiscal year. The increase is the result of an increase in lease depreciation, specifically depreciation on

operating lease assets that have increased from a net book value of $5,235,058 to $20,744,465 on December 31, 2002 and December 31, 2003, respectively, and on the Company's matured lease portfolio.

Professional and other fees increased 30.2%, or $285,186 for the three months ended December 31, 2003 as compared to the comparable period in the prior year. This increase is primarily due to increased broker fees incurred during the three months ended December 31, 2003. Professional and other fees increased 6.4%, or $155,286, for the nine months ended December 31, 2003 as compared to the comparable period in the prior year. This increase relates to the increased broker fees incurred during the third quarter of the current fiscal year.

Salaries and benefits expenses decreased 8.8% and 8.9% to $9,842,038 and $30,599,139 during the three and nine-month periods ended December 31, 2003 over the same periods in the prior year. Salaries and benefits expense decreased due to a reduction in the average number of employees during the three and nine months ended December 31, 2003 as compared to the three and nine months ended December 31, 2002. The Company employed approximately 545 and 564 people as of December 31, 2003 and 2002, respectively.

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The Company's general and administrative expenses increased 20.8% to $3,785,695 during the three months ended December 31, 2003, and increased 2.5% to $10,654,776 during the nine months ended December 31, 2003, as compared to the same periods in the prior fiscal year. The increases are due primarily to increases in business and health insurance, as well as an increase in subscription costs.

Interest and financing costs incurred by the Company for the three and nine months ended December 31, 2003 decreased 14.8% and 21.0% to $1,636,713 and $5,209,656 because our weighted average interest rate on new lease-related non-recourse debt decreased during the three and nine months ended December 31, 2003, as compared to the same periods in the prior fiscal year. Interest and financing costs relate to interest costs on the Company's indebtedness, both lease-specific and general working capital. Payments for interest costs on the majority of the Company's non-recourse and certain recourse notes are typically remitted directly to the lender by the lessee.

The Company's provision for income taxes decreased to $1,729,052 for the three months ended December 31, 2003 from $1,802,376 for the three months ended December 31, 2002, reflecting effective income tax rates of 40% and 41% for the three months ended December 31, 2003 and 2002, respectively. The Company's provision for income taxes increased to $5,067,855 for the nine months ended December 31, 2003 from $4,941,509 for the nine months ended December 31, 2002, reflecting effective income tax rates of 40% for the nine months ended December 31, 2003 and 41% for the nine months ended December 31, 2002. The reduction in the effective tax rate for the period ended December 31, 2003 as compared to the comparable period in the prior year is due primarily to "bonus depreciation" tax laws put into effect in prior years.

The foregoing resulted in an insignificant change in net earnings to $2,593,579 for the three-month period ended December 31, 2003 as compared to the same period in the prior fiscal year and a 6.9% increase in net earnings to $7,601,783 for the nine-month period ended December 31, 2003 as compared to the same period in the prior fiscal year. Basic and fully diluted earnings per common share were $0.28 and $0.26 for the three months ended December 31, 2003, as compared to $0.26 and $0.26 for the three months ended December 31, 2002. Basic and diluted weighted average common shares outstanding for the three months ended December 31, 2003 were 9,308,979 and 9,968,245, respectively. For the three months ended December 31, 2002, the basic and diluted weighted average shares outstanding were 9,992,133 and 10,028,509, respectively. Basic and fully

diluted earnings per common share were $0.81 and $0.76 for the nine months ended December 31, 2003, as compared to $0.70 and $0.69 for the nine months ended December 31, 2002. Basic and diluted weighted average common shares outstanding for the nine months ended December 31, 2003 were 9,410,173 and 10,054,689, respectively. For the nine months ended December 31, 2002, the basic and diluted weighted average shares outstanding were 10,228,007 and 10,280,813, respectively.

LIQUIDITY AND CAPITAL RESOURCES

During the nine-month period ended December 31, 2003, the Company had cash flows provided by operating activities of $12,049,214 and used cash flows in investing activities of $24,406,909. Cash flows generated by financing activities amounted to $11,353,009 during the same period. The effect of exchange rate changes during the period provided cash flows of $67,028. The net effect of these cash flows was a net decrease in cash and cash equivalents of $937,658 during the nine-month period. During the same period, the Company's total assets increased $17,643,881, or 6.3%. The cash balance at December 31, 2003 was $26,846,432 as compared to $27,784,090 at March 31, 2003.

The Company's debt financing activities typically provide approximately 80% to 100% of the purchase price of the equipment purchased by the Company for lease to its customers. Any balance of the purchase price (the Company's equity investment in the equipment) must generally be financed by cash flow from its operations, the sale of the equipment leased to third parties, or other internal means. Although the Company expects that the credit quality of its leases and its residual return history will continue to allow it to obtain such financing, no assurances can be given that such financing will be available on acceptable

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terms, or at all. The financing necessary to support the Company's leasing activities has principally been provided by non-recourse and recourse borrowings. Historically, the Company has obtained recourse and non-recourse borrowings from banks and finance companies. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed lease payments under the lease at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid from the lease payment, the lien is released and all further rental or sale proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk of each lease, and their only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease. The Company has programs with Key Corporate Capital, Inc. and Fleet Business Credit Corporation. In addition to these programs, the Company has regularly funded its leasing activities with Citizens Leasing Corporation, GE Capital Corporation, De Lage Landen Financial Services, Inc., Hitachi Leasing America, and Fifth Third Bank, among others. These programs require that each transaction is specifically approved and done solely at the lender's discretion. During the nine-month period ended December 31, 2003, the Company's lease related non-recourse debt portfolio increased 7.2% to $124,007,578.

Whenever possible and desirable, the Company arranges for equity investment financing which includes selling assets, including the residual portions, to third parties and financing the equity investment on a non-recourse basis. The Company generally retains customer control and operational services, and has minimal residual risk. The Company usually preserves the right to share in

remarketing proceeds of the equipment on a subordinated basis after the investor has received an agreed upon return on its investment. We actively sell or finance our equity investment with Bank of America, Fleet Business Credit Corporation and GE Capital Corporation, among others.

The Company's "Accounts payable - equipment" represents equipment costs that have been placed on a lease schedule, but for which the Company has not yet paid. The balance of unpaid equipment cost can vary depending on vendor terms and the timing of lease originations. As of December 31, 2003, the Company had $5,762,787 of unpaid equipment cost, as compared to $5,635,776 at March 31, 2003.

The Company's "Accrued expenses and other liabilities" includes deferred income, accrued salaries and benefits, and amounts collected and payable, such as sales taxes and lease rental payments due to third parties. As of December 31, 2003, the Company had $22,895,681 of accrued expenses and other liabilities.

Working capital for our leasing business is provided through a $45,000,000 credit facility expiring on July 21, 2006. Participating in this facility are Branch Banking and Trust Company, Bank of America, and National City Bank as agent. Each bank has committed $15,000,000 to the facility. The ability to borrow under this facility is limited to the amount of eligible collateral at any given time. The credit facility is secured by certain of the Company's assets such as chattel paper (including leases), receivables, inventory, and equipment. In addition, we have entered into pledge agreements for the stock of each of our Subsidiaries. The credit facility contains certain financial covenants and certain restrictions on, among other things, the Company's ability to make certain investments, and sell assets or merge with another company. As of December 31, 2003, the Company had no outstanding balance on this facility. In general, we use the National City Bank facility to pay the cost of equipment to be put on lease, and we repay borrowings from the proceeds of: (1) long-term, non-recourse, fixed rate financing which we obtain from lenders after the underlying lease transaction is finalized or (2) sales of leases to third parties. The loss of this credit facility could have a material adverse effect on our future results as we may have to use this facility for daily working capital and liquidity for our leasing business.

Borrowings under the National City Bank facility will bear interest at LIBOR plus 175 basis points or, at our option, at an alternative base rate which is the higher of (i) the prime commercial lending rate of the Administrative Agent, in its individual capacity as a bank, as announced from time to time at its head office, or (ii) the Federal Funds Rate plus 1/2 of 1% (one-half of one percent). The availability of the credit facility is subject to a borrowing base formula that consists of inventory, receivables, purchased assets, and leases. Availability under the credit facility may be limited by the asset value of

equipment purchased by us or by terms and conditions in the credit facility agreement. If we are unable to sell the equipment or unable to finance the equipment on a permanent basis within a certain time period, the availability of credit under the facility could be diminished or eliminated. The credit facility contains covenants relating to the following: minimum tangible net worth; cash flow coverage ratios; maximum debt to equity ratio; maximum amount of guarantees of subsidiary obligations; mergers; acquisitions; and asset sales.

Until they were merged on March 31, 2003, ePlus Technology of NC, inc., ePlus Technology of PA, inc. and ePlus Technology, inc. had separate credit facilities to finance their working capital requirements for inventories and accounts receivable. After the entities were merged into ePlus Technology, inc., the credit facilities were effectively merged into one by GE Commercial Distribution Finance Corporation ("GECDF"). The floor planning line from IBM Credit Corporation was terminated on March 31, 2003 and the outstanding balances were

subsequently repaid. The traditional business of ePlus Technology as a seller of computer technology and related peripherals and software products is financed through an agreement known as "floor planning" financing in which interest expense for the first thirty to forty-five days, in general, is not charged but is paid by the supplier/distributor. The floor planning liabilities are recorded as accounts payable-trade, as they are normally repaid within the thirty to forty-five day time-frame and represent an assigned accounts payable originally generated with the supplier/distributor. If the thirty to forty-five day obligation is not paid timely, interest is then assessed at stated contractual rates.

The respective floor planning inventory agreement maximum credit limits and actual outstanding balances were as follows:

Floor Plan Supplier	Credit Limit at March 31, 2003	Balance as of March 31, 2003	Credit Limit at December 31, 2003	Bal Decem
GECDF	$ 26,000,000	$ 15,158,501	$ 26,000,000	$ 1
IBM Credit Corporation	$ -	$ 26,328	$ -	$

The facility provided by GECDF requires a guaranty of up to $6,900,000 by ePlus inc. The loss of the GECDF floor planning facilities, which can occur with 60 days notice from GECDF, could have a material adverse effect on our future results as we currently rely on these facilities for daily working capital and liquidity for our technology sales business and operational accounts payable functions.

In addition to the floor planning financing, ePlus Technology, inc. has an accounts receivable facility through GECDF with a maximum amount that can be borrowed of $7,000,000. As of December 31, 2003, there was no outstanding balance on this facility. As of March 31, 2003, the maximum available that could be borrowed under the accounts receivable facility was $7,000,000 and there was an outstanding balance of $2,726,347. Availability under this facility is limited by the collateral base and may be further limited by certain covenants and terms and conditions of the facilities.

In the normal course of business, the Company may provide certain customers with performance guarantees, which are generally backed by surety bonds. In general, the Company would only be liable for the amount of these guarantees in the event of default in the performance of our obligations, the probability of which is remote in management's opinion. The Company is in compliance with the performance obligations under all service contracts for which there is a performance guarantee, and any liability incurred in connection with these guarantees would not have a material adverse effect on the Company's consolidated results of operations or financial position. In addition, the Company has other guarantees that represent parent guarantees in support of the ePlus Technology, inc. floor planning and accounts receivable financing up to $6.9 million.

On September 20, 2001, the Company's Board of Directors authorized the repurchase of up to 750,000 shares of its outstanding common stock for a maximum of $5,000,000 over a period of time ending no later than September 20, 2002. On October 4, 2002, another stock repurchase program previously authorized by the Company's Board of Directors became effective. This program authorized the repurchase of up to 3,000,000 shares of the Company's outstanding common stock over a period of time ending no later than October 3, 2003 and is limited to a

cumulative purchase amount of $7,500,000. On October 1, 2003, the Company's Board of Director authorized another stock repurchase program for the repurchase of up to 3,000,000 shares of the Company's outstanding common stock over a period of time ending September 30, 2004, with a cumulative purchase maximum of $ 7,500,000.

During the three months ended December 31, 2003 and 2002, the Company repurchased 164,000 and 522,833 shares of its outstanding common stock for a total of $2,392,880 and $3,727,256. During the nine months ended December 31, 2003 and 2002, the Company repurchased 327,300 and 894,384 shares of its outstanding common stock for a total of $4,671,627 and $6,021,123. Since the inception of the Company's initial repurchase program on September 20, 2001, and as of December 31, 2003, the Company had repurchased 1,415,784 shares of its outstanding common stock at an average cost of $8.605 per share for a total of $12,182,751. Of the shares repurchased, 331,551 shares were repurchased at a price of $5.87 per share as a result of a settlement that occurred during the nine months ended December 31, 2002.

POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS

The Company's future quarterly operating results and the market price of its stock may fluctuate. In the event the Company's 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 the Company's 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 or major customers or vendors of the Company.

The Company's quarterly results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, its entry into the e-commerce market, any reduction of expected residual values related to the equipment under the Company's leases, timing of specific transactions and other factors. See "Factors That May Affect Future Operating Results." Quarterly operating results could also fluctuate as a result of the sale by the Company of equipment in its lease portfolio, at the expiration of a lease term or prior to such expiration, to a lessee or to a third party. Such sales of equipment may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters.

The Company believes that comparisons of quarterly results of its operations are not necessarily meaningful and that results for one quarter should not be relied upon as an indication of future performance.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Certain statements contained in this report are not based on historical fact, but are forward-looking statements that are based upon numerous assumptions about future conditions that may not occur. Actual events, transactions and results may materially differ from the anticipated events, transactions, or results described in such statements. The Company's 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.

Our traditional businesses of equipment leasing and financing and technology sales have the following risks, among others, which are described in the Company's 2003 Form 10-K:

- we may not be able to realize our entire investment in the equipment

we lease;

- we depend on creditworthy customers and may not have reserved adequately for credit losses;

- capital spending by our customers may decrease;

- direct marketing by manufacturers rather than through distributors may affect future sales; and

- inventory and accounts receivable financing may not be available.

Our eECM solution introduced in May 2002 has had a limited operating history. Although we have been in the business of financing and selling information technology equipment since 1990, we will encounter some of the challenges, risks, difficulties and uncertainties frequently encountered by early-stage companies using new and unproven business models in rapidly evolving markets. Some of these challenges relate to the Company's ability to:

- increase the total number of users of eECM services;

- adapt to meet changes in its markets and competitive developments; and

- continue to update its technology to enhance the features and functionality of its suite of products.

We cannot be certain that our business strategy will be successful or that it will successfully address these and other challenges, risks and uncertainties.

Over the longer term, the Company expects to derive a significant portion of its revenues from its eECM business model, which is unproven. The Company expects to incur expenses that may negatively impact profitability. The Company also expects to incur significant sales and marketing, research and development, and general and administrative expenses in connection with the development of this business. As a result, the Company may incur significant expenses, which may have a material adverse effect on the future operating results of the Company as a whole.

Broad and timely acceptance of the eECM services, which is important to the Company's future success, is subject to a number of significant risks. These risks include:

- the electronic commerce business-to-business solutions market is highly competitive;

- the system's ability to support large numbers of buyers and suppliers is unproven;

- significant enhancement of the features and services of our eECM solution may be needed to achieve widespread commercial initial and continued acceptance of the system;

- the pricing model may not be acceptable to customers;

- if the Company is unable to develop and increase volume from our eECM services, it is unlikely that it will ever achieve or maintain profitability in this business;

- businesses that have already made substantial up-front payments for e-commerce solutions may be reluctant to replace their current solution and adopt the Company's solution;

- the Company's ability to adapt to a new market that is characterized by rapidly changing technology, evolving industry standards, new product announcements and established competition;

- we may be unable to protect our intellectual property rights or face claims from third parties for infringement of their products.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Although a substantial portion of the Company's liabilities are non-recourse, fixed interest rate instruments, the Company relies upon lines of credit and other financing facilities which are subject to fluctuations in interest rates. These instruments were entered into for other than trading purposes, are denominated in U.S. Dollars, and, with the exception of amounts drawn under the National City Bank and GECDF facilities, bear interest at a fixed rate. Because the interest rate on these instruments is fixed, changes in interest rates will not directly impact our cash flows. Borrowings under the National City facility bears interest at a market-based variable rate, based on a rate selected by the Company and determined at the time of borrowing. If the amount borrowed is not paid at the end of the rate period, the rate is reset in accordance with the Company's selection and changes in market rates. The GECDF facility bears interest at a market-based variable rate. Due to the relatively short nature of the interest rate periods, we do not expect our operating results or cash flow to be materially affected by changes in market interest rates. As of December 31, 2003, the aggregate fair value of our recourse borrowings approximated their carrying value.

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

Item 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the quarter covered by this report. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them, on a timely basis, to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
Not Applicable

Item 2. Changes in Securities and Use of Proceeds
Not Applicable

Item 3. Defaults Upon Senior Securities
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders
Not Applicable

Item 5. Other Information
Not Applicable

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Exhibit Description
3.1	Certificate of Incorporation of the Company, filed August 27, 1996 (Incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2002).
3.2	Certificate of Amendment of Certificate of Incorporation of the Company, filed December 31, 1997 (Incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2002).
3.3	Certificate of Amendment of Certificate of Incorporation of the Company, filed October 19, 1999 (Incorporated herein by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2002).

3.4	Certificate of Amendment of Certificate of Incorporation of the Company, filed May 23, 2002 (Incorporated herein by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2002).
3.5	Certificate of Amendment of Certificate of Incorporation of the Company, filed October 1, 2003 (Incorporated herein by reference to Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003).
3.6	Bylaws of the Company, as amended to date (Incorporated herein by reference to Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2002).
10.8	Amendment and Restated 1998 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003).
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).
32.1	Statement of the Chief Executive Officer of ePlus inc. pursuant to 18 U.S.C.ss.1350.

32.2	Statement of the Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C.ss.1350.

(b) Reports on Form 8-K

On October 2, 2003, the Company furnished a Current Report on Form 8-K enclosing a press release reporting the authorization by the Board of Directors of a plan to repurchase up to 3,000,000 shares of the Company's outstanding common stock over a time period ending no later than September 30, 2004 and limited to a cumulative purchase amount of $ 7,500,000.

On November 13, 2003, the Company furnished a Current Report on Form 8-K enclosing a press release reporting its financial results for the fiscal quarter ended September 30, 2003.

On December 2, 2003, the Company furnished a Current Report on Form 8-K enclosing employment agreements with Kley Parkhurst and Steven Mencarini.

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 17, 2004 /s/ PHILLIP G. NORTON

By: Phillip G. Norton, Chairman of the Board,
President and Chief Executive Officer

Date: February 17, 2004

/s/ STEVEN J. MENCARINI

By: Steven J. Mencarini, Senior Vice President
and Chief Financial Officer