

EPLUS INC
Form 10-K
June 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

o ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2013

OR

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

For the transition period from ___ to ___.

Commission file number: 1-34167

ePlus inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

54-1817218
(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

Edgar Filing: EPLUS INC - Form 10-K

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 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer (do not check if smaller reporting company)	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

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

The aggregate market value of the common stock held by non-affiliates of ePlus, computed by reference to the closing price at which the stock was sold as of September 30, 2012 was \$160,444,431. The outstanding number of shares of common stock of ePlus as of May 31, 2013, was 8,150,418.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the indicated parts of this Form 10-K:

Portions of the Company's definitive Proxy Statement relating to its 2013 annual meeting of shareholders (the "2013 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2013 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end to which this report relates.

Table of Contents

	Page
<u>Cautionary Language About Forward-Looking Statements</u>	1
Part I	
Item 1.	3
	<u>Business</u>
	<u>Executive Officers</u>
Item 1A.	14
	<u>Risk Factors</u>
Item 1B.	20
	<u>Unresolved Staff Comments</u>
Item 2.	20
	<u>Properties</u>
Item 3.	22
	<u>Legal Proceedings</u>
Item 4.	22
	<u>Mine Safety Disclosures</u>
Part II	
Item 5.	23
	<u>Market for Registrant’s Common Equity, Related Stockholder Matters</u>
	<u>and Issuer Purchases of Equity Securities</u>
Item 6.	26
	<u>Selected Financial Data</u>
Item 7.	27
	<u>Management’s Discussion and Analysis of Financial Condition and</u>
	<u>Results of Operations</u>
Item 7A.	43
	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
Item 8.	43
	<u>Financial Statements and Supplementary Data</u>
Item 9.	43
	<u>Changes in and Disagreements With Accountants on Accounting and</u>
	<u>Financial Disclosure</u>
Item 9.A	43
	<u>Controls and Procedures</u>
Item 9B.	44
	<u>Other Information</u>
Part III	
Item 10.	45
	<u>Directors, Executive Officers and Corporate Governance</u>
Item 11.	45
	<u>Executive Compensation</u>
Item 12.	45
	<u>Security Ownership of Certain Beneficial Owners and Management</u>
	<u>and Related Stockholder Matters</u>
Item 13.	45
	<u>Certain Relationships and Related Transactions, and Director</u>
	<u>Independence</u>
Item 14.	45
	<u>Principal Accounting Fees and Services</u>
Part IV	
Item 15.	46
	<u>Exhibits, Financial Statement Schedules</u>
<u>Signatures</u>	

Table of Contents

CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

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

- we offer a comprehensive set of solutions— the integrating information technology (IT) hardware sales, third-party software assurance and maintenance, professional services, proprietary software, and financing, and may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by similar companies, such as:
 - o managing a diverse product set of solutions in highly competitive markets with a small number of key vendors;
 - o increasing the total number of customers utilizing integrated solutions by up-selling within our customer base and gaining new customers;
 - o adapting to meet changes in markets and competitive developments;
 - o maintaining and increasing advanced professional services by retaining highly skilled personnel and vendor certifications;
 - o integrating with external IT systems, including those of our customers and vendors;
 - o continuing to enhance our proprietary software and update our technology infrastructure to remain competitive in the marketplace; and
 - o reliance on third parties to perform some of our service obligations;
- our dependence on key personnel, and our ability to hire 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 purchases from us;
 - our ability to protect our intellectual property rights and, when appropriate, license required technology;
 - the creditworthiness of our customers and our ability to reserve adequately for credit losses;
 - the possibility of goodwill impairment charges in the future;
 - uncertainty and volatility in the global economy and financial markets;
 - changes in the IT industry and/or rapid changes in product offerings;
 - our ability to secure our electronic and other confidential information;
- our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, or obtain non-recourse financing for our transactions;
 - future growth rates in our core businesses;
 - our ability to realize our investment in leased equipment;
 - significant adverse changes in, reductions in, or losses of relationships with major customers or vendors;
 - our ability to successfully integrate acquired businesses;
- our ability to maintain effective disclosure controls and procedures and internal control over financial reporting;
 - reduction of manufacturer incentives provided to us;

- exposure to changes in, interpretations of, or enforcement trends related to tax rules and other regulations; 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.

Table of Contents

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “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”).

Table of Contents

PART I

ITEM 1. BUSINESS

GENERAL

Our company was founded in 1990 and is a Delaware corporation. ePlus inc. is sometimes referred to in this Annual Report on Form 10-K as “we,” “our,” “us,” “ourselves,” or “ePlus.”

Our operations are conducted through two business segments. Our technology segment includes sales of information technology hardware, third-party software, professional engineering services, and third-party maintenance contracts and our proprietary software to commercial, government, and government-oriented entities. Our financing segment consists of the financing of equipment, software and related services to commercial, government, and government-oriented entities. See Note 14, “Segment Reporting” in the consolidated financial statements included elsewhere in this report.

ePlus inc. does not engage in any business other than serving as the parent holding company for the following operating companies:

Technology

- ePlus Technology, inc.;
- ePlus Systems, inc.;
- ePlus Content Services, inc.;
- ePlus Document Systems, inc.; and
- ePlus Technology Services, inc.

Financing

- ePlus Group, inc.;
- ePlus Government, inc.;
- ePlus Canada Company;
- ePlus Capital, inc.;
- ePlus Jamaica, inc.; and
- ePlus Iceland, inc.

We began using the name ePlus inc. in 1999 after changing our name from MLC Holdings, Inc. On March 31, 2003, the former entities ePlus Technology of PA, inc. and ePlus Technology of NC, inc. were merged into ePlus Technology, inc. This combination created one national entity to conduct our Technology sales and services business. ePlus Systems, inc. and ePlus Content Services, inc. were incorporated on May 15, 2001 and provide consulting services and proprietary software for enterprise supply management. ePlus Capital, inc. owns 100 percent of ePlus Canada Company, which was created on December 27, 2001 to transact business within Canada. ePlus Government, inc. was incorporated on September 17, 1997 to handle business servicing the federal government marketplace, which includes financing transactions that are generated through government contractors. ePlus Document Systems, inc. was incorporated on October 15, 2003 and provides proprietary software for document management.

ePlus Jamaica, inc. was incorporated on April 8, 2005 and ePlus Iceland, inc. was incorporated on August 10, 2005. Both companies are subsidiaries of ePlus Group, inc. and were created to transact business in Jamaica and Iceland,

respectively; however, neither entity has conducted any significant business, or has any employees or business locations outside the United States.

Table of Contents

OUR BUSINESS

Our primary focus is to deliver advanced technology and cloud-enablement solutions. We have evolved our offerings by continued investment to expand our professional and managed services, expanding our relationships with key vendors and broadening our vendor partnerships to capture opportunities in emerging technologies and developing proprietary software. Our current offerings include:

Technology Segment

- direct marketing of information technology equipment, third-party software; and third-party maintenance and services;
- professional services;
- proprietary software, including order-entry and order-management software (OneSource®), procurement, asset management, document management and distribution software, and electronic catalog content management software and services; and

Financing Segment

- leasing, and business process services to facilitate the acquisition and management of capital assets..

We have been in the business of selling, leasing, financing, and managing information technology and other assets for more than 22 years and have been licensing our proprietary software for more than 13 years. We currently derive the majority of our revenues from sales of Information Technology (“IT”) products and providing general and advanced professional services through our technology segment, which was approximately 96% of total revenue for the year ended March 31, 2013, and leasing and financing services through our financing segment, which was approximately 4% of total revenue for the year ended March 31, 2013. Sales to Verizon Communications, Inc. for the year ended March 31, 2013, represented approximately 14% of our total revenues. No customers accounted for more than 10% of our total revenues for the years ended March 31, 2012 and 2011. Our technology and finance segments represented approximately 79% and 21%, respectively, of our consolidated earnings before taxes (“segment earnings”). Our sales are generated primarily by our direct sales force, inside sales representatives, and business development associates through telemarketing to our customers, which include commercial accounts; federal, state and local governments and agencies; hospitals and other healthcare providers; K-12 schools; higher education institutions, and other not-for-profit and social institutions. We utilize our vendor relationships to generate new business by introducing customers to new products through various demand generation campaigns and co-sponsored events. We also lease and finance equipment purchased by our customers, and supply software and services directly and through relationships with vendors and equipment manufacturers.

Our broad product offerings provide customers with a highly-focused, end-to-end, turnkey solution for purchasing, lifecycle management, and financing for IT products and services. In addition, we offer asset-based financing and leasing of capital assets and lifecycle management solutions for the assets during their useful life, including disposal. We offer our customers a multi-disciplinary approach for implementing, controlling, and maintaining cost savings throughout their organizations, allowing our customers to simplify their administrative processes, gain data transparency and visibility, and enhance internal controls and reporting.

The key elements of our business are:

Technology Segment

-

Direct IT Sales: We are a direct marketer and authorized reseller of leading IT products including Cisco Systems, Hewlett Packard, VMWare, NetApp, EMC, Citrix, Apple, Dell, and Microsoft, via our direct sales force and web-based ordering solution, OneSource®. These products consist of hardware, software, software assurance and maintenance contracts.

- Advanced Technology Solutions: We provide an array of solutions focused in the areas of data center, storage, security, cloud enablement, and IT infrastructure. Within these areas we have engineering expertise in Internet telephony and Internet communications, collaboration, cloud computing, virtual desktop infrastructure, network design and implementation, storage, security, virtualization, business continuity, visual communications, audio/visual technologies, maintenance, and implementation services to support our customer base as part of our consolidated service offering.

Table of Contents

- Proprietary Software: We offer proprietary software for enterprise supply management, which can be used as a stand-alone solution or be integrated as a component of a bundled solution. These include eProcurement, spend management, asset management, document management, and product content management software. These systems can be installed behind our customers' firewall or operated as a service hosted by us.

Our line of proprietary software products is called OneSource® and consists of the following products:

- Onesource®IT, online web based software portal for customers purchasing IT equipment, software, and services from us;