

AUGUST 2003



To Our Shareholders:

I am pleased to report that the fiscal year ending March 31, 2003 was another strong year for ePlus. Despite the economy and world events, we had record revenues and net earnings. We continued to add customers in the middle-market and Fortune 500, including some high-profile wins in our software business. And our proprietary business process solution, Enterprise Cost Management, has increased value to public companies as they strive to comply with the reporting requirements of the Sarbanes-Oxley Act.

Net income for the year increased 9% to \$9.7 million. Revenues increased 46% to \$300 million, including a 72% increase in Sales of Equipment. We repurchased 1,022,384 shares of common stock, reducing our shares outstanding to 9,451,651 as of March 31, 2003. Fully diluted earnings per share for the year increased 13% to \$0.96.

We believe these gains reflect an increasing demand for cost controls and process efficiencies, as well as the growing awareness of ePlus and its solutions in the marketplace as a result of our ongoing sales and marketing efforts.

In the last year, The Hearst Corporation selected our Procure+ electronic procurement solution to help reduce procurement costs throughout the organization. Another Fortune 500 publisher, a large regional bank, and a major university medical center also selected Procure+ over competing vendors.

Smurfit-Stone Container Corporation and a well-known multi-billion dollar retailer — both Fortune 500 companies — adopted our Content+ solution to automate the process of aggregating and normalizing catalog content from hundreds of suppliers and delivering it to end users in an easily searchable format.

We developed and released the Software Management Module of Manage+, and have several existing customers — such as Martin Marietta Materials — deriving measurable hard dollar savings from this comprehensive module.

In January, we were awarded a third U.S. patent (No. 6,505,172), entitled “Electronic Sourcing System.” As the third patent in our repository of intellectual software property, it may provide protection against infringement of our software dating back to August 1994. Although the future financial value of our software application patents is unknown, to our customers they validate our investment and track record of innovation in the cost management software arena.

Our financing business and technology sales business units had strong results. Sales of equipment increased to \$219 million, as a result of the Source One and Elcom acquisitions, and by renewed ordering by existing customers. Our commercial leasing volume grew during the fourth quarter, and our total lease assets increased 7.7% to \$182 million during the year, the first increase in lease assets in three years.

We recently renewed our bank facility. With a three year term, an increased borrowing maximum of \$45 million, and a new participant, the Bank of America, N.A., we are well positioned to finance growth in all business units. The early renewal of our bank facility is a tribute to our continued financial performance, and solidifies our competitive position in the market. Our balance sheet remains strong, with cash and cash equivalent of \$27.8 million at year’s end.

ePlus continues to be a leading innovator of business process solutions that meet the business requirements of customers. With our unique combination of software, services, and transactional expertise, Enterprise Cost Management is unmatched in the marketplace, and we are better positioned to address the significant opportunities in the marketplace than ever before.

On behalf of ePlus, I would like to thank our employees, customers, and investors for your confidence and continuing support of the company.

A handwritten signature in black ink that reads "Phillip G. Norton". The signature is written in a cursive, flowing style.

*Phillip G. Norton
Chairman, President, and CEO*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 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

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

Title of each class	Name of each exchange on which registered
	<u>None</u>

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

Common Stock, \$0.01 par value

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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.

Indicate by check mark whether the registrant is an accelerated filer (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 the Company, computed by reference to the closing price at which the stock was sold as of September 30, 2002 was \$39,724,458. The outstanding number of shares of common stock of the Company as of June 20, 2003, was 9,458,201.

DOCUMENTS INCORPORATED BY REFERENCE

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

<u>Document</u>	<u>Part</u>
Portions of the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the Company's fiscal year end.	Part III

CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K, other periodic reports filed by the Company under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by or on behalf of the Company 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.

The Company's e-commerce business has a limited operating history. Although it has been in the business of financing and selling information technology equipment since 1990, the Company expects to derive a significant portion of its future revenues from its *ePlus* Enterprise Cost Management ("*eECM*") services. As a result, the Company will encounter some of the challenges, risks, difficulties and uncertainties frequently encountered by early stage companies using new and unproven business models in new and 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.

The Company cannot be certain that its 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 *eECM* services, which is based on an unproven business model. The Company expects to incur increased 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 losses in its e-commerce offerings in the foreseeable future, which may have a material adverse effect on the future operating results of the Company as a whole.

The Company began operating its *ePlusSuite* services in November 1999 and updated to *eECM* in 2002. Broad and timely acceptance of the *eECM* services, which is critical to the Company's future success, is subject to a number of significant risks. These risks include:

- operating resource management and procurement on the Internet is a new market;
- the system's ability to support large numbers of buyers and suppliers is unproven;
- significant enhancement of the features and services of *eECM* services is 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 transaction volume on *eECM*, it is unlikely that it will ever achieve or maintain profitability in this business;
- businesses that have 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, frequent new product announcements and established competition;
- significant expansion of internal resources is needed to support planned growth of the Company's *eECM* services.

The words "believe," "expect," "anticipate," "project," and similar expressions signify forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of the Company. Any such statement speaks only as of the date the statement was made. The Company undertakes no obligation to update or revise any forward-looking statements.

PART I

ITEM 1. BUSINESS

***ePlus inc.* CORPORATE STRUCTURE**

ePlus inc. (“the Company” or “*ePlus*”), a Delaware corporation, was formed in 1996. The Company changed its name from MLC Holdings, Inc. to *ePlus inc.* on October 19, 1999. *ePlus* engages in no other business other than serving as the parent holding company for the following companies:

- *ePlus Group, inc.* (“*ePlus Group*”);
- *ePlus Technology, inc.*;
- *ePlus Government, inc.*;
- *ePlus Canada Company*;
- *ePlus Capital, inc.*;
- *ePlus Systems, inc.*; and
- *ePlus Content Services, 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 through which our information technology (“IT”) reseller and technical support will conduct business. *ePlus Systems, inc.* and *ePlus Content Services, inc.* were incorporated on May 15, 2001 and are the entities that hold certain assets and liabilities originally acquired from ProcureNet, Inc. *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 Group* also has a 5% membership interest in MLC/CLC LLC and serves as its manager. On October 22, 1997, the Company formed MLC Leasing, S.A. de C.V., which is jointly owned by *ePlus Group, inc.* and *ePlus Technology, inc.*, to provide a legal entity capable of conducting a leasing business in Mexico. To date, this entity has conducted no business and has no employees or business locations.

ACQUISITIONS

The Company has acquired the following material entities or assets since 1997. The following is a summary of the acquisitions presented in chronological order.

Date Acquired	Acquisition	Major Business Locations	Accounting Method	Consideration
March 29, 2002	Certain assets and liabilities from Elcom International, Inc.'s IT fulfillment and professional service business (merged into ePlus Technology, inc. upon acquisition)	Boston, MA, Philadelphia, PA, San Diego, CA and New York, NY	Purchase	\$2,150,000 in cash plus the assumption of certain liabilities
October 4, 2001	SourceOne Computer Corporation (merged into ePlus Technology, inc. upon acquisition)	Campbell, CA	Purchase	274,999 shares of common stock valued at \$2,007,500 and \$800,006 in cash
May 15, 2001	Certain assets and liabilities from ProcureNet, Inc. (merged into newly created entities ePlus Systems, inc. and ePlus Content Services, inc.)	Avon, CT and Houston, TX	Purchase	442,833 shares of common stock valued at \$3,873,150 and \$1,000,000 in cash plus the assumption of certain liabilities
October 1, 1999	CLG, Inc. (merged into ePlus Group, inc. upon acquisition)	Raleigh, NC	Purchase	392,990 shares of common stock valued at \$3,900,426, subordinated notes to seller of \$3,064,574 and \$29,535,000 in cash
July 1, 1998	PC Plus, Inc. (now named ePlus Technology, inc.)	Herndon, VA	Purchase	263,478 shares of common stock valued at \$3,622,823 and \$3,622,836 in cash
September 29, 1997	Educational Computer Concepts, Inc. (now included in ePlus Technology, inc.)	Pottstown, PA	Pooling of Interests	498,998 shares of common stock valued at \$7,092,000
July 24, 1997	Compuventures of Pitt County, Inc. (now included in ePlus Technology, inc.)	Wilmington, Greenville, and Raleigh, NC	Pooling of Interests	260,978 shares of common stock valued at \$3,384,564

OUR BUSINESS

ePlus has developed its Enterprise Cost Management model through development and acquisition of software, products, and business process services over the past five years. Our current offerings include IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services. We have been in the business of selling, leasing, financing, and managing information technology and other assets for over ten years and currently derive the majority of our revenues from such activities. We sell primarily by using our internal sales force and through vendor relationships to commercial customers, federal, state and local governments, and higher education institutions. We also lease and finance equipment and supply software and services directly and through relationships with vendors, equipment manufacturers, and systems integrators.

ePlus Enterprise Cost Management is positioned to provide a comprehensive offering of products and services to our target market of middle market and larger businesses, governments, and institutions. Enterprise Cost Management is a multi-disciplinary approach for implementing, controlling, and maintaining cost savings throughout an organization, including the costs of purchasing, lifecycle management, and financing. It represents the continued evolution of our original offering of ePlusSuite e-commerce products.

The key elements of our business and our Enterprise Cost Management solution are:

- **IT Sales:** We are an authorized reseller of leading IT hardware and software products and have technical support personnel to support sales and implementations.
- **Financial Services:** ePlus Financial Services offers a wide range of competitive and tailored financing options, including leases and financing for a wide variety of fixed assets.
- **eProcurement:** Procure+, our e-procurement software package, has sophisticated workflow, catalog management, and transaction management capabilities that provide customers with the tools to search, request, and acquire goods and services while instilling centralized control over enterprise purchases and processes.
- **Supplier Enablement:** Content+ is the catalog and content management software that contains over 250,000 pattern matching rules and 44,000 product classifications for content generation enabling customers to either use or provide enriched, parametrically searchable catalogs.
- **Asset Management:** Manage+ is our asset management software, which streamlines the tracking of a customer's assets and delivers valuable business intelligence for compliance, reporting, budgeting and planning.
- **Professional Services:** We provide an array of network engineering planning, data storage and system intrusion security management and monitoring, implementation and network imaging and maintenance services to support our customer base as part of our consolidated service offering.
- **Business Process Outsourcing:** We provide outsourced services to augment the eECM solution for customers including payables processing, vendor management, contract compliance, invoice reconciliation, and document imaging.

The procurement software products and services, asset management and business process outsourcing are key functions of supporting and retaining customers for our sales and finance

businesses. The Company has developed and acquired these products and services to distinguish ePlus from its competition by providing a comprehensive offering to customers. Our target customers are primarily middle-market and larger companies in the United States of America and Canada, with annual revenues between \$25 million and \$1 billion. We believe there are over 60,000 customers in this target market.

Our target customer has one or more of the following business characteristics that we believe qualifies us as a preferred solution:

- seeks a lower cost alternative to licensing enterprise software solutions while preserving the investment in legacy IT infrastructures;
- will benefit from the cost savings and efficiency gains that can be obtained from a solution which integrates e-procurement, asset management, catalog content functionality, electronic bill presentment and payment and financing;
- prefers to retain the flexibility to negotiate prices with designated vendors or buying exchanges;
- wants to lower its total cost of ownership of fixed assets by re-designing business processes and proactively managing its fixed asset base over the life of the asset; and
- seeks a comprehensive solution for its entire supply chain from selection, requisition, purchase, settlement, ownership, financing and disposal of assets.

BUSINESS SEGMENTS

See “Note 14 - SEGMENT REPORTING” in the attached consolidated financial statements. ePlus has two basic business segments. Our first segment is the financing business unit that consists of the equipment and financing business to both commercial and government-related entities and the associated business process outsourcing services. Our second segment is our technology sales business unit that includes all the technology sales and related services including the procurement, asset management, and catalog software sales and services.

INDUSTRY BACKGROUND

Growth of the Internet as a Communications Channel for Efficient Business-to-Business Electronic Commerce

The Internet is now a preferred channel for many business-to-business transactions for most organizations. In the intensely competitive business environment, businesses have increasingly adopted Internet-based software applications and related tools to streamline their business processes, lower costs, and make their employees more productive.

Traditional Areas of Business Process Automation

Businesses have traditionally attempted to reduce costs through the automation of internal processes. Similar efforts have been made to improve the procurement process for operating resources in which we specialize, which include information technology and telecommunications

equipment, office equipment and professional services. The purchase and sale of these goods comprise a large portion of business-to-business transactions.

Many organizations continue to conduct procurement and management of operating resources through costly paper-based processes that require actions by many individuals both inside and outside the organization. Traditional processes also do not generally feature automated spending and procurement controls and, as a result, may fail to direct spending to preferred vendors and may permit spending on unapproved goods and services.

Many large companies have installed enterprise resource planning and supply chain automation systems and software to increase their procurement efficiency for operating resources. These systems are often complex and are designed for use by a relatively small number of sophisticated users. They may not provide the necessary inter-activity with the vendor. In addition, a variety of point-to-point solutions such as electronic data interchange have been developed. However, the expense and complexity associated with licensing, implementing and managing these solutions can make them unsuitable for all but the largest organizations.

Opportunity for Business-to-Business Enterprise Cost Management Solutions

We believe that an opportunity exists to provide an Internet-based Enterprise Cost Management solution either in-house or remotely hosted. Our end-to-end business process solutions integrate the procurement and management of assets with financing, fulfillment and other asset services. These solutions streamline processes within an organization and provide integrated access to third-party content, commerce and services. Our comprehensive approach also facilitates relationships with the customer's preferred vendors.

THE ePlus SOLUTION

Our Enterprise Cost Management framework is designed to provide an integrated suite of Internet-based business-to-business supply chain management solutions designed to improve productivity and enhance operating efficiency on a company-wide basis. eECM provides customers visibility and control of transactions and owned assets and, as a suite of integrated business applications, reduces redundancies throughout their process. The ePlus offering currently includes Internet-based applications for the catalog content management, e-procurement, asset management, document imaging, electronic bill presentment and payment and management of operating resources that can be integrated with financing and other asset services. In addition, our solution uses the Internet as a gateway between employees and third-party content, commerce and service providers. We believe our solution makes our customers' businesses more efficient, while providing better information to management.

ePlus allows customers to automate and customize their existing business rules and procurement processes using an Internet-based workflow tool. We offer customers a choice of Internet products on a licensed basis or as a remotely-hosted solution, which can reduce the up-front costs for customers, facilitate a quick adoption, and eliminate the need for customers to maintain and update software. We believe our solution can be implemented faster with fewer programmers or developers than many competing solutions.

STRATEGY

Our goal is to become a leading provider of Enterprise Cost Management services. The key elements of our strategy include the following:

Convert current and future customers to our services

We have an existing client base of approximately 2,000 customers, the vast majority of which are based in the United States. We believe our years of experience in developing supply chain management solutions, including financing, asset management and information technology sales and service, give us significant advantages over our competitors. Consequently, we believe we are well positioned to offer a comprehensive Enterprise Cost Management solution tailored to meet our customers' specific needs. We offer our software-based services through both a hosted version that can be obtained through a subscription fee basis or as a stand-alone product that can be licensed by the customer.

Expand our sales force and marketing activities

We currently have approximately 190 people in our sales and marketing function, which represents a small increase compared to the previous year of 186. We have expanded our presence in locations that have a high concentration of fast-growing middle and large market companies. We will continue to seek experienced sales personnel with established customer relationships and with backgrounds in hardware and software sales and supply chain management. We may also selectively acquire companies that have attractive customer relationships, skilled sales forces or have technology or services that may enhance our Enterprise Cost Management offerings.

Expand the functionality of our Internet-based solutions

We will continue to improve our Enterprise Cost Management offering to expand its functionality to serve our customers' needs. We intend to use the flexibility of our platform to offer additional products and services when economically feasible. As part of this strategy, we may also acquire technology companies to expand and enhance the platform of Enterprise Cost Management services to provide additional functionality and value added services.

DESCRIPTION OF ENTERPRISE COST MANAGEMENT (“eECM”)

eECM consists of six basic service products that have either been internally developed or have been acquired and incorporated into our total business process. The eECM framework consists of Procure+, Manage+, ePlus Leasing, Content+, strategic sourcing and business process outsourcing. These combined services and software offerings are integrated so that each component links with and shares information. Procure+, Manage+ and Content+ are the key parts of our software solution offerings and ePlus Leasing, strategic sourcing and business process outsourcing are the services provided by us.

Procure+. Procure+ represents our software solutions that offer Internet-based procurement capabilities that enable companies to reduce their purchasing costs while increasing their overall supply chain efficiency. Cost reductions are achieved through user-friendly application functionality designed to reduce off-contract, or unauthorized purchases, automate unnecessary manual processes, improve leverage with suppliers and provide links to a sophisticated asset information repository, Manage+. Procure+ is available as a stand-alone license or as a remotely-hosted solution under a subscription fee arrangement.

Procure+ provides the following features and functions for the customer:

- Electronic Catalogs-combines multiple vendor catalogs including item pricing and availability information, which can be updated as required. Catalog content can be viewed in customized formats and can include detailed product information.
- Workflow and Business Rules-graphically displays complex business rules to build the internal workflow process to mirror the customer's organization. No coding or expensive programming is required at the customer level. Multiple business rules can be used, and the customer or ePlus can make changes. Approval thresholds and routing rules can be set by dollar amount, quantity, asset type or other criteria.
- Order Tracking-provides detailed information online about every order, including date and time stamps from requestors, approvers, purchasers, vendors and shippers enabling customers to track orders and to create detailed order audit trails.
- Order Information-contains multiple data fields which can be easily customized to provide complete information to the customer, such as accounting codes, budget costs, cost center information, notes, and shipping and billing information.
- Multiple Currency-contains the ability to handle multiple currency issues.

The key benefits of Procure+ include:

- easy to use, either as an Internet-based interface that requires no software to be installed at a customer's location and limited training, or installed in-house and run on a customer's internal systems;
- easy implementation without the assistance or expense of third-party consultants as ePlus usually provides the configuration and implementation services;
- integration of multiple vendor catalogs and advanced search, filtering and viewing capabilities that allow the customer to control views by user groups;
- an easily configured workflow module that automates and controls each customer's existing business processes for requisition or order routing, approval and preparation;
- order status reporting throughout the requisition process as well as real-time connections to suppliers for pricing and availability and other critical information; and
- controls unauthorized purchasing and enables usage of preferred vendors for volume discounts.

Content+. Content+ provides functionality to extract, cleanse, update, and syndicate electronic catalog content and related business information. The core to Content+ is the program Common Language Generator ("CLG"), which incorporates a knowledge base of over 250,000 pattern matching rules and 44,000 product classifications to automatically cleanse and classify suppliers' product content into categories that can be easily represented and searched in online catalogs. Content+ is utilized by purchasing organizations for supplier enablement and by selling organizations for content syndication.

Content+ is a software solution for clients that require in-house functionality to aggregate, normalize, enrich and manage data.

Components of Content+ provides the following information and services to the customer:

- *Common Language Generator*-transforms unstructured and raw supplier data into a structured, enriched, and organized state for an e-commerce platform.
- *Content+ Maintenance*-the Content+ Maintenance Utility provides users with the ability to perform in-house catalog maintenance through a user-friendly interface that provides the ability to create, add, delete, modify data and track changes throughout a catalog.
- *Content+ Load*-imports supplier catalog files into the client's own internal catalog structure, simplifying content updates and the creation of catalogs.
- *Content+ Services and Management*-Content+ Services are designed to quickly augment the customer's content capabilities to meet their business requirements for building, loading, aggregating, publishing and syndicating data and achieve better search results with standardized, reusable product data, accurate data classifications, and highly enriched output. Most customers are provided an end-to-end content solution that is customized to fit their business requirements.
- *Catalog Hosting Services*-we also provide 24/7 operations and support with maintenance services for both content and catalogs. In addition, we can syndicate content to all formats, including XML, CSV, procurement applications, printed catalogs, and to widely used enterprise resource planning and accounting systems.
- *Aggregation Services*-our services include contacting manufacturers and suppliers to retrieve and capture all relevant product information, including descriptions, images, and drawings. We also create data sources for future updates and maintenance of product descriptions.
- *Ready-to-Go Content*-ePlus has developed "ready-to-go" content which consists of one million items of product content that is enriched, classified, and e-commerce enabled. The content items span 44,000 categories encompassing most everything the average business needs to buy. ePlus Content currently offers its services and software solutions for both the buy and sell-side electronic commerce marketplace.

Manage+. Manage+ offers Internet-based asset management capabilities that are designed to provide customers with comprehensive asset information to enable them to proactively manage their fixed assets and lower the total cost of ownership of the assets. Assets procured using Procure+ or from other sources including other e-procurement or enterprise resource planning systems can populate the Manage+ database to provide a seamless link. Manage+ is a remotely-hosted solution. Manage+ provides the following information to the customer:

- *Asset Information*-contains descriptive information on each asset, including serial number, tracking number, purchase order number, manufacturer number, model number, vendor, category, billing code, order date, shipping date, delivery date, install date, equipment status and, if applicable, lease number, lease schedule, lease start date, lease end date, lease term, remaining term and information on any options ordered with the equipment.

- Location Information-provides asset location information including an address, building or room number, or other information required by the customer.
- Cost Center Information- supports invoicing assets to cost center or budget categories.
- Invoice Information-maintains information from the original invoice on the asset for warranty and tracking purposes.
- Financial Information-tracks all financial information on the asset, including purchase price or lease cost, software licensing costs and warranty and maintenance information.
- Customized Information-user specific information can also be maintained.

The key benefits of Manage+ include:

- an easy-to-use Internet-based interface that requires no software to be installed at a customer's location and limited training;
- easy implementation without the assistance of consultants and entails no upfront license fee or ongoing maintenance or upgrade costs;
- providing the information necessary to proactively manage the fixed asset base, including property and sales tax calculations, upgrade and replacement planning, technological obsolescence and total cost of ownership calculations;
- automating invoice reconciliation to reduce errors and track vendor performance, including evaluating scheduled delivery versus actual delivery performance;
- management of warranty and maintenance information to reduce redundant maintenance fees and charges on equipment no longer in use;
- tracking of all pertinent financial, contractual, location, cost center, configuration, upgrade and usage information for each asset enabling customers to calculate the return of their investment by model, vendor, department or other factors; and
- reducing overruns and assistance with application rollouts and the annual budgeting process.

ePlus Leasing. ePlus Leasing is our service that facilitates the lease financing of various types of products on terms previously negotiated by a customer while automating the accumulation of product data to assist in the financing process. ePlus Leasing allows customers to order products when desired and to aggregate a substantial number of orders onto one or more lease financing transactions at the end of a pre-determined order period (usually one to three months). Transactions can then be invoiced by location, division, or business unit, as desired by the customer.

We assist customers in structuring loans, leases, sales/leasebacks, tax-exempt financing, vendor programs, private label programs, off-balance sheet leases and federal government financing in order to meet their requirements.

Other eECM Services. Our business process outsourcing, network engineering, monitoring and maintenance and implementation service allows customers to obtain high-quality services that

can be linked and consolidated with other components of our *eECM* solution. Certain types of assets that are procured through *Procure+* can be configured, imaged, staged, and installed by us on the customer site. Our services assist our customers in managing their existing information technology asset base, including maintenance, network engineering, information security management, project management, training and other technology services. Our *Pay+* service provides electronic presentment and payment. Having an extensive services offering provides a material distinction between *ePlus* and its competition.

IMPLEMENTATION AND CUSTOMER SERVICE

We use a project management approach to the implementation of *eECM* solution with each new customer. Our team consists of implementation specialists, who are responsible for the customer evaluation and implementation of the solution, customer relationship managers who lead the customer's long-term support team, and the appropriate engineering staff members to provide technology services, if required, to the customer.

Our implementation of our solution is a multi-step process that requires, on average, approximately four to nine weeks and involves the following steps:

- We conduct an operational audit to understand the customer's business processes across multiple departments, existing enterprise resource planning and outsourced applications, future plans, procurement approval processes and business rules and internal control structure.
- We design a customized procurement, management and service program to fit the customer's organizational needs.
- We implement an Internet-based Enterprise Cost Management system which can include: customer workflow processes and business rules using our graphical route-builder, custom catalogs linking to chosen vendors, including *ePlus*, custom reporting and querying, and data capture parameters for the *Manage+* asset repository.
- We beta test the site and train the customer's personnel.
- We provide help desk, technological assistance, and remote network monitoring on a constant basis.

We provide Enterprise Cost Management as a service solution to our customers, and the ongoing support of the customer and our commitment to the highest possible customer satisfaction is fundamental to our strategy. We use a team approach to providing customer care and assign each customer to a specific team so that they are able to continue to interact with the same *ePlus* personnel who have experience and expertise with the customer's specific business processes and requirements.

TECHNOLOGY

General. Our *Procure+* and *Manage+* applications are fully standards-based, designed for the Internet and built upon an underlying architecture that is based on leading application frameworks. These frameworks provide access security, load balancing, resource pooling, message queuing, distributed transaction processing and reusable components and services.

Our applications are designed to be scalable, due to our multi-tiered architecture employing thin client, multi-threaded application servers and relational databases. Our applications are available to our customers over any standard Internet browser without the need to download applets or executables.

We use a component-based application infrastructure composed of readily configurable business rules, a workflow engine, advanced data management capabilities and an electronic cataloging system. Each of these core elements plays a crucial role in deploying enterprise-wide solutions that can capture a customer's unique policies and processes and manage key business functions.

Business Rules. Our business rules engine allows Procure+ to be configured so that our customers can effectively enforce their requisition approval policies while providing flexibility so that the business rules can be edited and modified as our customer's policies change. Users of the system are presented with appropriate guidance to facilitate adherence to corporate policies. The business rules dramatically reduce reworking of procedures, track and resolve policy exceptions online and eliminate re-keying of data into back-end systems. The business rules permit management by exception, in which items requiring managerial attention are automatically routed.

Workflow Engine. Our workflow engine allows information to flow through the customer organization in a timely, secure and efficient manner. For example, in addition to incorporating policy-based business rules, it incorporates time-based standards to reroute purchase requisitions if the original recipient does not respond within the allocated performance time frame. Our application also provides e-mail notification to users of the status of a procedure or of events requiring attention, alteration and action, such as notifying the creator of a purchase requisition of its location in the purchasing cycle or notifying a manager of a requisition requiring attention.

Content Management. Our electronic catalog allows multiple vendor information to be linked to customized customer catalogs. Information can be updated when required by the customer.

Asset Management. Manage+ is based upon an RDBMS (relational database management system) that is designed to be scalable and can be easily customized to provide customer-specific fields and data elements.

Our Enterprise Cost Management product can be integrated with external systems such as enterprise resource planning systems, financial management systems, human resource systems (for user information and organizational structure) and project accounting systems. These interfaces allow for the exchange of data between systems. These integration processes can be scheduled according to the needs of our customers' information services and finance departments.

System Security. Our design allows for multiple layers of security through the use of defined users and roles, secured logins, digital certificates and encryption. We currently use security software to protect our internal network systems from unauthorized access. Our firewall is a comprehensive security suite providing access control, authentication, network address translation, auditing and state table synchronization.

RESEARCH AND DEVELOPMENT

Our software has been acquired from third-party vendors or has been developed by us. In earlier stages of our eECM development, we relied heavily on licensed software and outsourced development, but with the acquisition of the software products and the hiring of the employees

obtained from the acquisition of ProcureNet, Inc. on May 15, 2001, much of our current software development is handled within the company. We have also outsourced certain programming tasks to a highly specialized offshore development company. We own programs that we market or we have obtained perpetual license rights and source code from third-party software companies. Subject to certain exceptions, we generally retain the source code and intellectual property rights of the customized software.

To successfully implement our business strategy, we are providing both a hosted and stand-alone software functionality and related services that meet the demands of our customers and prospective customers. We expect that competitive factors will create a continuing need for us to improve and add to our Enterprise Cost Management offering. The addition of new products and services will also require that we continue to improve the technology underlying our applications. We intend to maintain our competitive advantage by focusing our current resources in maintaining our state-of-the-art programs.

SALES AND MARKETING

We focus our marketing efforts on achieving lead generation and converting our existing customer base to our eECM solution. The target market for our customer base is primarily middle and large market companies with annual revenues between \$25 million and \$1 billion. We believe there are over 60,000 customers in our target market. Our sales representatives are compensated based on primarily a commission basis and we typically market to the senior financial officer or the senior information officer in an organization. To date, the majority of our customers have been generated from direct sales.

Our sales force is organized regionally in 30 office locations throughout the United States. See "Item 2. PROPERTIES" for additional office location information. As of June 20, 2003 our sales organization included approximately 190 sales and sales support personnel.

INTELLECTUAL PROPERTY RIGHTS

Our success depends in part upon proprietary business methodologies and technologies that we have licensed and modified. We own certain software programs or have entered into software licensing agreements in connection with the development of our Enterprise Cost Management offering. We rely on a combination of copyright, service mark and trade secret protection, confidentiality and nondisclosure agreements and licensing arrangements to establish and protect intellectual property rights. We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection.

We currently have four patents, three in the United States and one in nine countries in Europe, each regarding our electronic sourcing and catalog searching. We cannot provide any assurance that any patents, as issued, will prevent the development of competitive products or that our patents will not be successfully challenged by others or invalidated through administrative process or litigation. We also have the following registered trademarks: ePlus, ePlusSuite, Procure+, Manage+, Service+, Finance+, ICN and International Computer Networks. We have applied for the following trademarks: OneSource, Content+, eECM, ePlus Enterprise Cost Management and The Language of *e-commerce*. We also have ten registered copyrights and have additional common law trademarks.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy

aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exists, software piracy can be expected to be a persistent problem. Our means of protecting our proprietary rights may not be adequate and our competitors may independently develop similar technology, duplicate our products or design around our proprietary intellectual property.

FINANCING AND SALES ACTIVITIES

We have been in the business of selling, leasing, financing, providing procurement and asset management software and managing information technology and various other assets for over ten years and currently derive the majority of our revenues from such activities. We believe we can develop formal contractual arrangements with our current as well as new financing sources to provide equipment financing and leasing for our customers.

Leasing and Financing. Our leasing and financing transactions generally fall into two categories: direct financing and operating leases. Direct financing transfers substantially all of the benefits and risks of equipment ownership to the customer. Operating leases consist of all other leases that do not meet the criteria to be direct financing or sales-type leases. Our lease transactions include true leases and installment sales or conditional sales contracts with corporations, non-profit entities and municipal and federal government contracts. Substantially all of our lease transactions are net leases with a specified non-cancelable lease term. These non-cancelable leases have a provision which requires the lessee to make all lease payments without offset or counterclaim. A net lease requires the lessee to make the full lease payment and pay any other expenses associated with the use of equipment, such as maintenance, casualty and liability insurance, sales or use taxes and personal property taxes. We lease primarily computers, associated accessories and software, communication related equipment, medical equipment, industrial related machinery and equipment, office furniture and general office equipment, transportation equipment, and other various business related equipment.

In anticipation of the expiration of the initial term of a lease, we initiate the remarketing process for the related equipment. Our goal is to maximize revenues on the remarketing effort by either: (1) releasing or selling the equipment to the initial lessee; (2) renting the equipment to the initial lessee on a month-to-month basis; (3) selling or leasing the equipment to a different customer; or (4) selling the equipment to equipment brokers or dealers. The remarketing process is intended to enable us to recover or exceed the residual value of the leased equipment. Any amounts received over the estimated residual value less any commission expenses become profit margin to us and can significantly impact the degree of profitability of a lease transaction.

We aggressively manage the remarketing process of our leases to maximize the residual values of our leased equipment portfolio. To date, we have realized a premium over our original booked residual assumption or the net book value. The majority of these gains are attributable to early termination fees as a direct result of our remarketing strategy.

Sales. We have been providing technology sales and services since 1997. We are an authorized reseller or have the right to resell products and services from over 150 manufacturers and distributors. Our largest vendor relationships include Tech Data, HP, Dell Computer Corporation, Microsoft Corporation, Ingram Micro, Inc., and IBM. We have in excess of 150 vendor authorizations to market specific products. Our flexible platform and customizable catalogs facilitate the addition of new vendors with little incremental effort. Using the distribution systems available, we usually sell products that are shipped from the distributors or suppliers

directly to our customer location that allows us to keep our inventory of any product to a minimum. The products we sell typically have payment account terms ranging from due upon delivery up to 60 days to pay depending on the customer's credit and payment requirements.

Financing and Bank Relationships. We have a number of bank and finance company relationships that we use to provide working capital for all of our businesses and long-term financing for our lease financing businesses. Our finance department is responsible for maintaining and developing relationships with a diversified pool of commercial banks and finance companies with varying terms and conditions. During the year ended March 31, 2001, the Company sold leased equipment to MLC/CLC LLC, a joint venture in which the Company has a 5% ownership interest, that amounted to 5% of the Company's revenues. No sales transactions occurred in the years ended March 31, 2002 and 2003 with this entity. See "ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS, FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES."

Risk Management and Process Controls. It is our goal to minimize the financial risks of our balance sheet assets. To accomplish this goal, we use and maintain conservative underwriting policies and disciplined credit approval processes. We also have internal control processes, including contract origination and management, cash management, servicing, collections, remarketing and accounting. Whenever possible, we use non-recourse financing (which is limited to the underlying equipment and the specific lessee and not the Company's general assets) for our leasing transactions and we try to obtain lender commitments before acquiring the related assets. We estimate that there are over 40 non-recourse financing sources available that we could use for supplying non-recourse financing.

When desirable, we manage our risk in assets by selling leased assets, including the residual portion of leases, to third parties rather than owning them. We try to obtain commitments for these asset sales before asset origination in a financing transaction. We also use agency purchase orders to procure equipment for lease to our customers as an agent, not a principal, and otherwise take measures to minimize our inventory. Additionally, we use fixed-rate funding and issue proposals that adjust for material adverse interest rate movements as well as material adverse changes to the financial condition of the customer.

We have an executive management review process and other internal controls in place to protect against entering into lease transactions that may have undesirable financial terms or unacceptable levels of risk. Our lease and sale contracts are reviewed by senior management for pricing, structure, documentation, and credit quality. Due in part to our strategy of focusing on a few types of equipment categories, we have extensive product knowledge, historical re-marketing information and experience on the products we lease, sell and service. We rely on our experience in setting and adjusting our sale prices, lease rate factors and the residual values.

Default and Loss Experience. During the fiscal year ended March 31, 2003, we provided for \$616,074 in credit losses and incurred actual credit losses of \$494,247. During the fiscal year ended March 31, 2002 we provided for \$1,488,706 in credit losses and incurred actual credit losses of \$183,618.

COMPETITION

The market for leasing, IT sales and services and procurement software services is intensely competitive, subject to economic conditions, rapid change and significantly affected by new product introductions and other market activities of industry participants. We expect to continue

to compete in all three areas of business against local, regional and national firms. We compete directly with various leasing companies and bank leasing subsidiaries as well as captive finance companies. Many of these competitors are well established, have substantially greater financial, marketing, technical, and sales support than we do, and have established reputations for success in the purchase, sale and lease of computer-related products. In addition, many computer manufacturers may sell or lease directly to our customers, and our continued ability to compete effectively may be affected by the policies of such manufacturers.

The procurement software and electronic commerce market is in a constant state of change due to overall market acceptance and economic conditions. There are a number of companies developing and marketing business-to-business electronic commerce solutions targeted at specific vertical markets. Other competitors are also attempting to migrate their technologies to an Internet-enabled platform. Some of these competitors and potential competitors include enterprise resource planning system vendors and other major software vendors which are expected to sell their procurement and asset management products along with their application suites. These enterprise resource planning vendors have a significant installed customer base and have the opportunity to offer additional products to those customers as additional components of their respective application suites. We also face indirect competition from potential customers' internal development efforts and have to overcome potential customers' reluctance to move away from existing legacy systems and processes.

We believe that the principal competitive factors for business-to-business electronic commerce solutions are scalability, functionality, ease-of-use, ease-of-implementation, ability to integrate with existing legacy systems, experience in business-to-business supply chain management and knowledge of a business' asset management needs. We believe we can compete favorably with our competitors in these areas within our framework of *eECM* that consists of *Procure+*, *Manage+*, *Content+*, *ePlus Leasing*, strategic sourcing and business process outsourcing.

EMPLOYEES

As of March 31, 2003 we employed 570 full-time and part-time employees who operated through approximately 30 office locations, including our principal executive offices and regional sales offices. No employees are represented by a labor union and we believe our relationships with our employees are good. The functional areas of our employees are as follows:

	<u>Number of Employees</u>
Sales and Marketing	190
Technical Support	155
Accounting and Finance	66
Contractual	59
Administrative	52
Software and Implementations	39
Executive	9

U.S. SECURITIES AND EXCHANGE COMMISSION REPORTS

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments to those reports, filed with or furnished to the U.S. Securities and Exchange Commission are available free of charge through the Company's internet

website, www.eplus.com, as soon as reasonably practical after the Company has electronically filed such material with, or furnished it to, the SEC.

RISK FACTORS

The Limited Operating History Of Our e-commerce Related Products And Services Makes It Difficult To Evaluate Our Business And Our Prospects

Our eECM solution 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 business models in evolving markets. Some of these challenges relate to our ability to:

- increase the total number of users of our Enterprise Cost Management services;
- adapt to meet changes in our markets and competitive developments;
- hire sufficient personnel to accommodate the expected growth in our customer base; and
- continue to update our technology to enhance the features and functionality of our suite of products.

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

The Electronic Commerce Business-To-Business Solutions Market Is Highly Competitive And We Cannot Assure That We Will Be Able To Effectively Compete

The market for Internet-based, business-to-business electronic commerce solutions is extremely competitive. We expect competition to intensify as current competitors expand their product offerings and new competitors enter the market. We cannot assure you that we will be able to compete successfully against current or future competitors, or that competitive pressures faced by us will not harm our business, operating results or financial condition. In addition, the market for electronic procurement solutions is relatively new and evolving. Our strategy of providing an Internet-based electronic commerce solution may not be successful, or we may not execute it effectively. Accordingly, our solution may not be widely adopted by businesses.

Because there are relatively low barriers to entry in the electronic commerce market, competition from other established and emerging companies may develop in the future. Increased competition is likely to result in reduced margins, longer sales cycles and loss of market share, any of which could materially harm our business, operating results or financial condition. The business-to-business electronic commerce solutions offered by our competitors now or in the future may be perceived by buyers and suppliers as superior to ours. Many of our competitors have, and potential competitors may have, more experience developing Internet-based software and end-to-end purchasing solutions, larger technical staffs, larger customer bases, greater brand recognition and greater financial, marketing and other resources than we do. In addition, competitors may be able to develop products and services that are superior to our products and services, that achieve greater customer acceptance or that have significantly improved functionality as compared to our existing and future products and services.

If Our Products Contain Defects, Our Business Could Suffer

Products as complex as those used to provide our electronic commerce solutions often contain known and undetected errors or performance problems. Many serious defects are frequently found during the period immediately following introduction of new products or enhancements to existing products. Although we attempt to resolve all errors that we believe would be considered serious by our customers, our products are not error-free. Undetected errors or performance problems may not be discovered in the future and errors considered by us to be minor may be considered serious by our customers. This could result in lost revenues, delays in customer acceptance or unforeseen liability that would be detrimental to our reputation and to our business.

We May Not Be Able To Hire And Retain Sufficient Sales, Marketing And Technical Personnel That We Need To Succeed

To increase market awareness and sales of our offerings, we may need to expand our sales operations and marketing efforts in the future. Our products and services require a sophisticated sales effort and significant technical support. Competition for qualified sales, marketing and technical personnel fluctuates depending on market conditions and we might not be able to hire or retain sufficient numbers of such personnel to grow our business.

If We Are Unable To Protect Our Intellectual Property, Our Business Will Suffer

The success of our business strategy depends, in part, upon proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, trade secret and service mark laws and contractual provisions with our subcontractors to protect our proprietary technology. It may be possible for unauthorized third parties to copy certain portions of our products or reverse engineer or obtain and use information that we regard as proprietary. Some of our agreements with our customers and technology licensors contain residual clauses regarding confidentiality and the rights of third parties to obtain the source code for our products. These provisions may limit our ability to protect our intellectual property rights in the future that could seriously harm our business, operating results and financial condition. We cannot assure you that our means of protecting our intellectual property rights will be adequate. If any of these events happen, our business, operating results and financial condition could be harmed.

We Face Risks Of Claims From Third Parties For Intellectual Property Infringement That Could Harm Our Business

Although we believe that our intellectual property rights are sufficient to allow us to market our existing products without incurring liability to third parties, we cannot assure you that our products and services do not infringe on the intellectual property rights of third parties.

In addition, because patent applications in the United States are not publicly disclosed until the patent is issued, we may not be aware of applications that have been filed which relate to our products or processes. We could incur substantial costs in defending ourselves and our customers against infringement claims. In the event of a claim of infringement, we and our customers may be required to obtain one or more licenses from third parties. We cannot assure you that such licenses could be obtained from third parties at a reasonable cost or at all. Defense of any lawsuit or failure to obtain any such required license could harm our business, operating results and

financial condition. In addition, in certain instances, third parties licensing software to us have refused to indemnify us for possible infringement claims.

If We Publish Inaccurate Catalog Content Data, Our Business Could Suffer

Any defects or errors in catalog content data could harm our customers or deter businesses from participating in our offering, damage our business reputation, harm our ability to attract new customers and potentially expose us to legal liability. In addition, from time to time some participants in Enterprise Cost Management services could submit to us inaccurate pricing or other catalog data. Even though such inaccuracies are not caused by our work and are not within our control, such inaccuracies could deter current and potential customers from using our products and could harm our business, operating results and financial condition.

We Depend On Having Creditworthy Customers

Our leasing and technology sales business requires sufficient amounts of debt and equity capital to fund our equipment purchases. If the credit quality of our customer base materially decreases, or if we experience a material increase in our credit losses, we may find it difficult to continue to obtain the capital we require and our business, operating results and financial condition may be harmed. In addition to the impact on our ability to attract capital, a material increase in our delinquency and default experience would itself have a material adverse effect on our business, operating results and financial condition.

We May Not Be Able To Realize Our Entire Investment In The Equipment We Lease

We lease various types of equipment to customers through two distinct types of transactions: direct financing leases and operating leases. A direct financing lease passes substantially all of the risks and rewards of owning the related equipment to the customer. Lease payments during the initial term of a direct financing lease cover approximately 90% of the underlying equipment's cost at the inception of the lease. The duration of an operating lease, however, is shorter relative to the equipment's useful life. We bear a slightly greater risk in operating leases in that we may not be able to remarket the equipment on terms that will allow us to fully recover our investment.

At the inception of each lease, we estimate the fair market value of the item as a residual value for the leased equipment based on the terms of the lease contract. A decrease in the market value of such equipment at a rate greater than the rate we expected, whether due to rapid technological obsolescence or other factors, would adversely affect the residual values of such equipment. Any such loss, which is considered by management to be permanent in nature, would be recognized in the period of impairment in accordance with Statement of Financial Accounting Standard No. 13, "Accounting for Leases." Consequently, there can be no assurance that our estimated residual values for equipment will be realized. Our lease portfolio has recently expanded to new types of equipment under lease of which we may not experience the same residual realization economics.

We May Not Reserve Adequately For Our Credit Losses

We maintain a consolidated reserve for credit losses on finance receivables. Our consolidated reserve for credit losses reflects management's judgment of the loss potential. Our management bases its judgment on the nature and financial characteristics of our obligors, general economic conditions and our charge-off experience. It also considers delinquency rates and the value of the collateral underlying the finance receivables.

We cannot be certain that our consolidated reserve for credit losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy or events adversely affecting specific customers, industries or markets. If our reserves for credit losses are not adequate, our business, operating results and financial condition may suffer.

Our Earnings May Fluctuate

Our earnings are susceptible to fluctuations for a number of reasons, including the seasonal and cyclical nature of our customers' procurement patterns. Our earnings will continue to be affected by fluctuations in our historical business, such as lower sales of equipment, reductions in realized residual values, and lower overall leasing activity. In the event our revenues or earnings are less than the level expected by the market in general, such shortfall could have an immediate and significant adverse impact on our common stock's market price.

We Are Dependent Upon Our Current Management Team

Our operations and future success depend on the efforts, abilities and relationships of our Chairman, Chief Executive Officer and President, Phillip G. Norton; our founder and Executive Vice President, Bruce M. Bowen, who also serves as a director; Steven J. Mencarini, Senior Vice President and Chief Financial Officer; and Kleyton L. Parkhurst, Senior Vice President and Treasurer. The loss of any of these key management officers or personnel could have a material adverse effect on our business, operating results and financial condition. Each of these officers has an employment agreement with us. We also maintain key-man life insurance on Mr. Norton.

ITEM 2. PROPERTIES

The Company operates from 30 office locations. Our total leased square footage is approximately 108,000 square feet for which we pay rent of approximately \$157,101 per month. Some of our companies operate in shared office space to improve sales, marketing and improve cost efficiency. We do not own any real estate. Some sales and technical service personnel operate from either residential offices or space that is provided for by another entity or are located on a customer site. The following table identifies our largest locations, the number of current employees as of March 31, 2003, the square footage and the general office functions.

Location	Company	Employees	Square Footage	Function
Herndon, VA (2 locations)	ePlus Group, inc. ePlus Technology, inc. ePlus Government, inc.	231	35,149	Corporate and subsidiary headquarters, sales office, technical support and warehouse
Robbinsville, NJ	ePlus Technology, inc.	32	9,563	Sales office and technical support
Pottstown, PA (2 locations)	ePlus Technology, inc.	52	17,100	Sales office, technical support and warehouse
Campbell, CA	ePlus Technology, inc.	36	5,974	Sales office, technical support and warehouse

Location (cont.)	Company	Employees	Square Footage	Function
Wilmington, NC	ePlus Technology, inc.	33	5,941	Sales office and technical support
Raleigh, NC	ePlus Group, inc. ePlus Technology, inc.	23	8,638	Sales office-shared and technical support
Avon, CT	ePlus Systems, inc.	15	4,807	Subsidiary headquarters, sales office and technical development
Houston, TX	ePlus Content Services, inc.	18	4,000	Subsidiary headquarters, sales office and e-commerce catalog service center
Canton, MA	ePlus Technology, inc.	27	6,358	Sales office and technical support
Other locations		103	9,981	Sales offices and technical support

The two largest locations, Herndon, VA and Pottstown, PA, have lease expiration dates of November 30, 2004 and May 31, 2005, respectively.

ITEM 3. LEGAL PROCEEDINGS

On November 22, 2002, an affiliate of one of ePlus' lenders filed a complaint against ePlus inc., as successor in interest to CLG, Inc. in the Supreme Court of the State of New York. ePlus acquired CLG in September 1999. In the complaint, the lender alleges that CLG misrepresented that it had good title to certain assets that it had leased to a customer and financed on a non-recourse basis with the lender. The customer subsequently defaulted on its payments and then filed for bankruptcy in Delaware. The bankruptcy court found that title to the financed assets had passed to the customer and that CLG was simply a lien holder. The lender is seeking approximately \$2.6 million in damages, plus interest, late charges and attorney fees. ePlus has removed the case to the United States District Court for the Southern District of New York. Although, the ultimate outcome and liability, if any, cannot be determined, the Company believes that it has meritorious defenses in connection with the lawsuit and intends to vigorously contest it. In the opinion of management, resolution of this lawsuit is not expected to have a material adverse effect on the financial position of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Our common stock is quoted on the NASDAQ National Market System under the symbol "PLUS." The following table sets forth the range of high and low sale prices for our common stock as quoted on the NASDAQ for the period April 1, 2001 through March 31, 2003, by quarter.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
June 30, 2001	\$10.88	\$ 6.17
September 30, 2001	\$11.40	\$ 6.75
December 31, 2001	\$10.25	\$ 7.15
March 31, 2002	\$ 9.79	\$ 8.62
June 30, 2002	\$10.35	\$ 6.91
September 30, 2002	\$ 8.00	\$ 5.57
December 31, 2002	\$ 7.90	\$ 6.04
March 31, 2003	\$ 7.70	\$ 6.91

On June 20, 2003 the closing price of the common stock was \$10.36 per share. On June 20, 2003 there were 221 shareholders of record of our common stock. We believe there are over 400 beneficial holders of the Company's common stock.

DIVIDENDS

The Company has never paid a cash dividend to stockholders. We have retained our earnings for use in the business. There is also a contractual restriction in our ability to pay dividends. Our National City Bank credit facility restricts dividends to 50% of net income accumulated after September 30, 2000. Therefore, the payment of cash dividends on our common stock is unlikely in the foreseeable future. Any future determination concerning the payment of dividends will depend upon the elimination of this restriction and the absence of similar restrictions in other agreements, our financial condition, results of operations and any other factors deemed relevant by our Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with the Consolidated Financial Statements of the Company and related Notes thereto and the information included under "ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS, FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES - AS OF AND FOR THE YEARS ENDED MARCH 31, 2001, 2002 AND 2003" and "ITEM 1, BUSINESS."

ePlus inc. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

(Dollar amounts in thousands, except per share data)

	Year Ended March 31,				
	1999	2000	2001	2002	2003
<i>CONSOLIDATED STATEMENTS OF EARNINGS</i>					
Revenues:					
Sales of equipment	\$ 83,516	\$ 166,252	\$ 216,183	\$ 127,753	\$ 219,209
Sales of leased equipment	84,379	57,360	34,031	9,353	6,096
Lease revenues	20,611	31,374	42,694	48,850	50,520
Fee and other income	5,464	9,747	13,678	19,029	23,821
Total revenues	<u>193,970</u>	<u>264,733</u>	<u>306,586</u>	<u>204,985</u>	<u>299,646</u>
Costs and Expenses:					
Cost of sales of equipment	71,367	147,209	182,474	111,598	197,788
Cost of sales of leased equipment	83,269	55,454	33,329	9,044	5,892
Direct lease costs	6,184	8,025	16,535	9,579	6,582
Professional and other costs	1,222	2,126	3,363	2,718	3,188
Salaries and benefits	11,880	19,189	30,611	32,797	46,182
General and administrative expenses	5,152	7,090	10,766	12,517	15,234
Interest and financing costs	3,601	11,390	15,523	11,810	8,308
Total costs and expenses	<u>182,675</u>	<u>250,483</u>	<u>292,601</u>	<u>190,063</u>	<u>283,174</u>
Earnings before provision for income taxes	11,295	14,250	13,985	14,922	16,472
Provision for income taxes	4,579	5,875	5,667	6,010	6,760
Net earnings	<u>\$ 6,716</u>	<u>\$ 8,375</u>	<u>\$ 8,318</u>	<u>\$ 8,912</u>	<u>\$ 9,712</u>
Net earnings per common share - Basic	<u>\$ 0.99</u>	<u>\$ 1.09</u>	<u>\$ 0.86</u>	<u>\$ 0.87</u>	<u>\$ 0.97</u>
Weighted average shares outstanding - Basic	6,769,732	7,698,287	9,625,891	10,235,129	10,061,088

ePlusinc. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA
(Dollar amounts in thousands, except per share data)

	As of March 31,				
	1999	2000	2001	2002	2003
CONSOLIDATED BALANCE SHEETS					
Assets:					
Cash and cash equivalents	\$ 7,892	\$ 21,910	\$ 24,534	\$ 28,224	\$ 27,784
Accounts receivable	44,090	60,167	57,627	41,397	38,385
Notes receivable	547	1,195	1,862	228	53
Inventories	658	2,445	2,651	872	1,373
Investment in leases and leased equipment, net	86,901	231,999	202,846	169,087	182,169
Other assets	12,357	24,628	15,754	27,503	23,928
All other assets	1,914	2,991	5,593	11,685	5,249
Total assets	<u>\$ 154,359</u>	<u>\$ 345,335</u>	<u>\$ 310,867</u>	<u>\$ 278,996</u>	<u>\$ 278,941</u>
Liabilities:					
Accounts payable - equipment	\$ 18,049	\$ 22,976	\$ 9,227	\$ 3,899	\$ 5,636
Accounts payable - trade	12,518	29,452	18,926	15,105	25,914
Salaries and commissions payable	536	957	1,293	492	620
Recourse notes payable	19,081	39,017	8,876	4,660	2,736
Nonrecourse notes payable	52,429	182,845	157,960	129,095	115,678
All other liabilities	7,932	12,967	22,678	19,456	18,740
Total liabilities	<u>110,545</u>	<u>288,214</u>	<u>218,960</u>	<u>172,707</u>	<u>169,324</u>
Stockholders' equity	<u>43,814</u>	<u>57,121</u>	<u>91,907</u>	<u>106,289</u>	<u>109,617</u>
Total liabilities and stockholders' equity	<u>\$ 154,359</u>	<u>\$ 345,335</u>	<u>\$ 310,867</u>	<u>\$ 278,996</u>	<u>\$ 278,941</u>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS, FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES - AS OF AND FOR THE YEARS ENDED MARCH 31, 2001, 2002 AND 2003

The following discussion and analysis of results of operations and financial condition of the Company should be read in conjunction with the Consolidated Financial Statements and the related Notes included elsewhere in this report.

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

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 our ePlus Enterprise Cost Management model which represents the continued evolution of our original implementation of ePlus e-commerce products entitled ePlusSuite. The expansion to our eECM model is a framework that combines our IT sales and professional services, leasing and financing services, asset management software and services, procurement software, and electronic catalog content management software and services.

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

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. These products and services and associated expenses with this business acquisition 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 unit business 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 expansion 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, as required by Statement of Financial Accounting Standards 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 lease 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 generally accepted accounting principles, 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 transactions subsequent to the initial term, our policy is to recognize revenues 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 EQUIPMENT. Sales of equipment includes the following types of transactions: (1) sales of new or used equipment which is not subject to any type of lease; (2) sales of off-lease equipment to the secondary market; and (3) sales of procurement software. Sales of new or used equipment are recognized upon shipment. Sales of off-lease equipment are recognized when constructive title passes to the purchaser.

SOFTWARE SALES. 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: when 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 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 the 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; and (4) 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. As of March 31, 2002 and 2003, the Company's reserve for credit losses was \$6.8 and \$6.8 million, respectively. 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).

INVESTMENTS. The Company has a 5% membership interest in MLC/CLC LLC, a joint venture to which the Company sold leased equipment. MLC/CLC LLC stopped purchasing leased equipment prior to the year ending March 31, 2001. The Company's investment in MLC/CLC LLC was accounted for using the cost method. The Company recorded an impairment of \$628,218 during the year ended March 31, 2002 on this investment. The Company also wrote off a \$420,711 investment in a start-up venture during the year ended March 31, 2002, as the

underlying equity did not support the carrying amount of the Company's investment.

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." During the years ended March 31, 2003 and 2002, respectively, \$0.2 million and \$1.1 million of costs for the development of software for internal use were capitalized. As of March 31, 2003, the Company had \$1.7 million, net of amortization, of capitalized costs for the development of internal-use software as compared to \$1.8 million, net of amortization, at March 31, 2002. These capitalized costs are included in the accompanying condensed consolidated balance sheets as a component of property and equipment - net.

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. During the years ended March 31, 2003 and 2002, \$0.3 million and \$0 of costs for the development of software available to customers were capitalized. As of March 31, 2003, the Company had \$0.3 million, net of amortization, of capitalized costs for the development of software available to customers as compared to \$0, net of amortization, at March 31, 2002. These capitalized costs are included in the accompanying condensed consolidated balance sheets as a component of other assets.

RESULTS OF OPERATIONS

The Year Ended March 31, 2003 Compared to the Year Ended March 31, 2002

Total revenues generated by the Company during the year ended March 31, 2003 were \$299.6 million compared to revenues of \$205.0 million for the year ended March 31, 2002, an increase of 46.2%. This increase is primarily attributable to significantly increased revenues from the sales of equipment and smaller increases in lease revenues and fee and other income, and offset somewhat by a decrease in sales of leased equipment. The Company's revenues are composed of sales, lease revenues, and fee and other income, and may vary considerably from period to period.

Sales revenue, which includes sales of equipment and sales of leased equipment, increased 64.3% to \$225.3 million during the year ended March 31, 2003, as compared to \$137.1 million in the prior fiscal year.

The majority of sales of equipment are generated through the Company's technology business unit subsidiaries. Sales of used and/or off-lease equipment are also generated from the Company's brokerage and re-marketing activities. For the year ended March 31, 2003, we experienced an increase in customer demand for IT products despite an overall sluggish economy. The increase was a result of increased sales within the Company's existing customer base and from customers attained from recent acquisitions. For the year ended March 31, 2003, equipment sales through the Company's technology business unit subsidiaries accounted for 97.3% of sales of equipment, compared to 99.2% for the prior fiscal year. For the year ended March 31, 2003, sales of equipment increased 71.6% to \$219.2 million, a result of increased technology sales through the Company's subsidiaries.

The Company realized a gross margin on sales of equipment of 9.8% for the year ended March 31, 2003, as compared to 12.6% during the year ended March 31, 2002. This decrease in net

margin percentage can be attributed to increased competition in the marketplace and variations in the profitability on the mix and volume of products sold.

The Company also recognizes revenue from the sale of leased equipment. During the year ended March 31, 2003 compared to the prior fiscal year, sales of leased equipment decreased 34.8% to \$6.1 million. During the year ended March 31, 2003, the Company recognized a gross margin of 3.3% on leased equipment sales as compared to a gross margin of 3.3% during the prior fiscal year. The decrease in sales of leased equipment for the year ended March 31, 2003 reflects the reduced volume of lease equipment 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, as well as the timing of any debt funding recognized in accordance with SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", as amended by SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125." Prior to May 2000, the majority of the Company's sales of leased equipment had historically been sold to MLC/CLC LLC, a joint venture in which the Company owns a 5% interest. Firstar Equipment Finance Corporation, which owns 95% of MLC/CLC LLC, discontinued their investment in new lease acquisitions effective May 2000. The Company has developed and will continue to develop relationships with additional lease equity investors and financial intermediaries to diversify its sources of equity financing.

The Company's lease revenues increased 3.4% to \$50.5 million for the year ended March 31, 2003, compared with \$48.9 million for the prior fiscal year. This increase reflects increased order period fees and lease sales, offset somewhat by original term lease earnings on the Company's maturing lease portfolio. Our net investment in leased assets was \$182.2 million at March 31, 2003, a 7.7% increase from \$169.1 million at March 31, 2002.

For the year ended March 31, 2003, fee and other income was \$23.8 million, an increase of 25.2% over the prior fiscal year. Fee and other income includes eECM revenues, revenues from adjunct services and management fees, including broker fees, support fees, warranty reimbursements, and learning center revenues generated by the Company's technology business unit subsidiaries. The increase in fee and other income in the year ended March 31, 2003 is the result of increased professional services fees and broker fee revenue, and includes an approximate \$2.5 million rebate from one of the Company's equipment vendors. The Company's fee and other income contains 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. 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 decreased 31.3% during the year ended March 31, 2003, as compared to the prior fiscal year. The largest component of direct lease costs is depreciation expense of leased equipment.

Professional and other fees increased 17.3% for the year ended March 31, 2003 over the prior fiscal year, and was primarily the result of an increase in broker fees and utilization of outside services.

Salaries and benefits expenses increased 40.8% during the year ended March 31, 2003, as compared to the prior fiscal year. The increase is the result of the increased weighted average number of personnel employed by the Company, particularly employees acquired in recent acquisitions, as well as increased commission expenses in the Company's lease financing and technology sales units.

General and administrative expenses increased 21.7% over the prior fiscal year. This increase is primarily related to the expense of additional personnel added through recent acquisitions. In addition, the Company has experienced increased expenses related to the development and deployment of its e-commerce strategy.

Interest and financing costs incurred by the Company for the year ended March 31, 2003 decreased 29.7%, and relate to interest costs on the Company's indebtedness. In addition to decreased borrowing under the Company's lines of credit, the Company's lease-related non-recourse debt portfolio decreased significantly, and our weighted average interest rate on new lease-related non-recourse debt decreased during the years ended March 31, 2003 and 2002 (See "Liquidity and Capital Resources"). Payment for interest costs on the majority of non-recourse and certain recourse notes are typically remitted directly to the lender by the lessee.

The Company's provision for income taxes increased to \$6.8 million for the year ended March 31, 2003 from \$6.0 million for the prior fiscal year, reflecting effective income tax rates of 41.0% and 40.3%, respectively.

The foregoing resulted in a 9.0% increase in net earnings for the year ended March 31, 2003, as compared to the prior fiscal year.

Basic and fully diluted earnings per common share were \$0.97 and \$0.96, respectively, for the year ended March 31, 2003, as compared to \$0.87 and \$0.85, respectively, for the year ended March 31, 2002, based on weighted average common shares outstanding of 10,061,088 and 10,109,809, respectively, for 2003 and 10,235,129 and 10,458,235, respectively, for 2002.

The Year Ended March 31, 2002 Compared to the Year Ended March 31, 2001

Total revenues generated by the Company during the year ended March 31, 2002 were \$205.0 million compared to revenues of \$306.6 million for the year ended March 31, 2001, a decrease of 33.1%. This decrease is primarily attributable to decreased revenues from the sales of equipment and leased equipment, offset slightly by an increase in lease revenues and fee and other income. The Company's revenues are composed of sales, lease revenues, and fee and other income, and may vary considerably from period to period.

Sales revenue, which includes sales of equipment and sales of leased equipment, decreased 45.2% to \$137.1 million during the year ended March 31, 2002, as compared to \$250.2 million in the prior fiscal year.

The majority of sales of equipment are generated through the Company's technology business unit subsidiaries. Sales of used and/or off-lease equipment are also generated from the Company's brokerage and re-marketing activities. For the year ended March 31, 2002, we experienced a marked decrease in customer demand for IT products due to an overall economic slowdown. The decrease was a result of generally slower sales within the Company's existing customer base and the reduction in sales to customers in the communications industry. For the year ended March 31, 2002, equipment sales through the Company's technology business unit

subsidiaries accounted for 99.2% of sales of equipment. For the year ended March 31, 2002, sales of equipment decreased 40.9% to \$127.8 million, a result of decreased technology sales through the Company's subsidiaries.

The Company realized a gross margin on sales of equipment of 12.6% for the year ended March 31, 2002, as compared to 15.6% during the year ended March 31, 2001. This decrease in net margin percentage can be attributed to increased competition in a slower marketplace, lower overall demand in the marketplace, and variations in the profitability on the mix and volume of products sold.

The Company also recognizes revenue from the sale of leased equipment. During the year ended March 31, 2002 compared to the prior fiscal year, sales of leased equipment decreased 72.5% to \$9.4 million. During the year ended March 31, 2002, the Company recognized a gross margin of 3.3% on leased equipment sales as compared to a gross margin of 2.1% during the prior fiscal year. The decrease in sales of leased equipment for the year ended March 31, 2002 reflects the reduced volume of lease equipment sold to outside investors, although the transactions which were sold reflected a higher gross margin. 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, as well as the timing of any debt funding recognized in accordance with SFAS No. 125, as amended by SFAS No. 140. Prior to May 2000, the majority of the Company's sales of lease equipment had historically been sold to MLC/CLC LLC, a joint venture in which the Company owns a 5% interest. During the years ended March 31, 2002 and 2001, sales to MLC/CLC LLC, accounted for 0% and 43.1% of sales of leased equipment, respectively. Sales to the joint venture required the consent of the joint venture partner. Firststar Equipment Finance Corporation, which owns 95% of MLC/CLC LLC, discontinued their investment in new lease acquisitions effective May 2000. The Company has developed and will continue to develop relationships with additional lease equity investors and financial intermediaries to diversify its sources of equity financing.

The Company's lease revenues increased 14.4% to \$48.9 million for the year ended March 31, 2002, compared with the prior fiscal year. This increase reflects increased remarketing revenues on the Company's maturing lease portfolio. Our net investment in leased assets was \$169.1 million at March 31, 2002, a 16.6% decrease from \$202.8 million at March 31, 2001.

For the year ended March 31, 2002, fee and other income was \$19.0 million, an increase of 39.1% over the prior fiscal year. Fee and other income includes eECM revenues, revenues from adjunct services and management fees, including broker fees, support fees, warranty reimbursements, and learning center revenues generated by the Company's technology business unit subsidiaries. The increase in fee and other income in the year ended March 31, 2002 includes an approximate \$3.5 million rebate from one of the Company's equipment vendors. The Company's fee and other income contains 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. 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.

For the year ended March 31, 2002, included in fee and other income were \$5.4 million in eECM revenues, as compared to \$5.7 million in the year ended March 31, 2001. This represents a decrease of 5.8% and reflects a reduction of transactions utilizing our eECM products and

services. These revenues consist of amounts charged for the arrangement of procurement transactions executed through Procure+, and Manage+, components of eECM.

The Company's direct lease costs decreased 42.1% during the year ended March 31, 2002, as compared to the prior fiscal year. The largest component of direct lease costs is depreciation expense on operating lease equipment.

Professional and other fees decreased 19.2% for the year ended March 31, 2002 over the prior fiscal year, and was primarily the result of a material reduction in the utilization of outside service providers.

Salaries and benefits expenses increased 7.1% during the year ended March 31, 2002, as compared to the prior fiscal year. The increase is the result of the increased number of personnel employed by the Company, particularly employees acquired in the SourceOne acquisition, which is offset by reduced commission expenses in the Company's lease financing and technology sales units.

General and administrative expenses increased 16.3% over the prior fiscal year. The increase reflects the additional expense related to the Company's recently formed subsidiaries, ePlus Systems, inc. and ePlus Content Services, inc. A portion of the increase is attributable to the non-recurring, one-time write-off of certain software assets and an equity investment held in a former business partner of the Company, as the Company determined that the investment net book value would not be realized. In addition, the Company has experienced increased expenses related to the development and deployment of its e-commerce strategy.

Interest and financing costs incurred by the Company for the year ended March 31, 2002 decreased 23.9%, and relate to interest costs on the Company's indebtedness. In addition to decreased borrowing under the Company's lines of credit, the Company's lease-related non-recourse debt portfolio decreased significantly, and our weighted average interest rate on new lease-related non-recourse debt decreased during the year ended March 31, 2002 (See "Liquidity and Capital Resources"). Payment for interest costs on the majority of non-recourse and certain recourse notes are typically remitted directly to the lender by the lessee.

The Company's provision for income taxes increased to \$6.0 million for the year ended March 31, 2002 from \$5.7 million for the prior fiscal year, reflecting effective income tax rates of 40.3% and 40.5%, respectively.

The foregoing resulted in a 7.1% increase in net earnings for the year ended March 31, 2002, as compared to the prior fiscal year.

Basic and fully diluted earnings per common share were \$0.87 and \$0.85, respectively, for the year ended March 31, 2002, as compared to \$0.86 and \$0.80, respectively, for the year ended March 31, 2001, based on weighted average common shares outstanding of 10,235,129 and 10,458,235, respectively, for 2002 and 9,625,891 and 10,383,467, respectively, for 2001.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended March 31, 2003, the Company generated cash flows from operations of \$35.8 million, and used cash flows from investing activities of \$31.8 million. Cash flows used by financing activities amounted to \$4.5 million during the same period. The net effect of these cash flows was a net decrease in cash and cash equivalents of \$0.4 million during the year. During the

same period, our total assets decreased \$0.1 million, primarily as the result of decreases in the Company's deferred tax assets and increases in our net investment in leases and leased equipment. On April 17, 2000, a secondary offering of 1,000,000 shares of our common stock was completed that generated net proceeds of \$25,936,388. The Company's net investments in direct financing and operating lease equipment increased \$5.8 million, or 3.4%, and \$7.3 million, or 501.5%, respectively, during the period. The cash balance at March 31, 2003 was \$27.8 million as compared to \$28.2 million the prior year.

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, at acceptable 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. Recently the Company has regularly funded its leasing activities with Fleet Business Credit LLC, De Lage Landen Financial Services, Inc., Bank of America Vendor Finance, Inc., Citizens Leasing Corporation, and JP Morgan Leasing, Inc., among others. These programs require that each transaction is specifically approved and done solely at the lender's discretion.

During the year ended March 31, 2003, the Company's lease-related non-recourse debt portfolio decreased 10.4% to \$115.7 million. The decrease is primarily the result of loan paydowns on the debt portfolio through customer lease payments. 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.

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-to return on its investment.

Through MLC/CLC LLC, the Company has a joint venture agreement that had historically provided the equity investment financing for certain of the Company's transactions. Firststar Equipment Finance Company ("Firststar"), formerly Cargill Leasing Corporation, is an unaffiliated investor which owns 95% of MLC/CLC LLC. Firststar's parent company, US Bancorp, is a bank holding company that is publicly traded on the New York Stock Exchange under the symbol "USB". This joint venture arrangement enabled the Company to invest in a significantly greater portfolio of business than its limited capital base would otherwise allow. A significant portion of the Company's revenue generated by the sale of leased equipment has historically been

attributable to sales to MLC/CLC LLC. (See “**RESULTS OF OPERATIONS**”). Firststar has discontinued new lease acquisition transactions effective May 2000. We actively sell or finance our equity investment with 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 March 31, 2003, the Company had \$5.6 million of unpaid equipment cost, as compared to \$3.9 million at March 31, 2002.

Working capital for our leasing business is provided through a \$35,000,000 credit facility that expires on April 17, 2004. Participating in this facility are Branch Banking and Trust Company (\$15,000,000) and National City Bank (\$20,000,000), the agent. The ability to borrow under this facility is limited to the amount of eligible collateral at any given time. The credit facility has full recourse to the Company and is secured by a blanket lien against all of the Company's assets including the common stock of all wholly-owned 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. The interest rates charged on borrowings are the higher of the LIBOR interest rate plus 1.75% to 2.5% or the Federal Funds Rate plus 0.5% to 0.75%. As of March 31, 2003, the Company had no outstanding balance on the 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.

ePlus Technology of NC, inc., ePlus Technology of PA, inc. and ePlus Technology, inc., until they were merged on March 31, 2003, 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 Distribution Finance Corporation. The floor planning line from IBM Credit Corporation was terminated on March 31, 2003. The outstanding balances on the IBM Credit Corporation as of March 31, 2003 were paid subsequent to year-end and further borrowings on this line have ceased. Their traditional business as sellers of computer technology and related network equipment and software products is financed through agreements known as "floor planning" financing in which interest expense for the first thirty to forty-five days 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.

As of March 31, 2003, the respective floor planning inventory agreement maximum credit limits and actual outstanding balances were as follows:

Entity	Floor Plan Supplier	Credit Limit at March 31, 2002	Balance as of March 31, 2002	Credit Limit at March 31, 2003	Balance as of March 31, 2003
ePlus Technology of NC, inc.	GE Distribution Finance Corp. (a) IBM Credit Corporation	\$ 3,500,000	\$ 1,493,106	\$ -	\$ 22,857
ePlus Technology of PA, inc.	GE Distribution Finance Corp. (a) IBM Credit Corporation	\$ 9,000,000	\$ 3,154,218	\$ -	\$ 3,471
ePlus Technology, inc.	GE Distribution Finance Corp. (a)	\$ 13,500,000	\$ 3,836,411	\$ 26,000,000	\$ 15,158,501

(a) Subsequent to March 31, 2002, GE Distribution Finance Corporation became the successor to Deutsche Financial Services Corporation.

The facilities provided by GE Distribution Finance Corporation prior to the merger for ePlus Technology of PA, inc. and ePlus Technology, inc. required a separate guaranty of up to \$4,900,000 and \$2,000,000, respectively, by ePlus inc. The post-merger combined program under ePlus Technology inc. also has a guaranty of up to \$6,900,000 by ePlus inc. The floor planning facility formerly provided by IBM Credit Corporation to ePlus Technology of PA, inc. also required a guaranty by ePlus inc. for the total balance outstanding. The loss of the GE Distribution Finance Corporation floor planning facilities could have a material adverse effect on our future results as we rely on these facilities for daily working capital and liquidity for our technology sales business.

In addition to the floor planning financing, ePlus Technology, inc., effective as of the merger date of March 31, 2003, has an accounts receivable facility through GE Distribution Finance Corporation with a maximum amount of \$7,000,000 and an outstanding balance of \$2,726,347 on this facility as of March 31, 2003. As of March 31, 2002, the maximum available under the accounts receivable facilities for ePlus Technology, inc. and ePlus Technology of PA, inc. was \$5,000,000 and \$2,000,000, respectively, and as of March 31, 2002, there was no outstanding balance on these facilities. Availability under the lines of credit may be limited by the asset value of equipment purchased by the Company and may be further limited by certain covenants and terms and conditions of the facilities.

The Company had two subordinated recourse notes payable with a total principal amount due of \$3.1 million to Centura Bank resulting from the acquisition of CLG, Inc. in September 1999. These notes were originally due in October 2006, but could be repaid at any earlier date, and had an 11% interest rate payable monthly. These notes were paid off on August 30, 2002 in connection with a settlement.

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.

ADEQUACY OF CAPITAL RESOURCES

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

ITEM 7A. 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 is reliant 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 GE Distribution Finance Corporation (formerly Deutsche Financial Services Corporation) 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 and GE Distribution Finance Corporation facilities bear 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. 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 March 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the consolidated financial statements and Schedule listed in the accompanying Index to Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Except as set forth below, the information required by Items 10, 11, 12, 13 and 15 is incorporated by reference from the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the Company's fiscal year.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the name, age and position with the Company of each person who is an executive officer, director or significant employee.

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>	<u>CLASS</u>
Phillip G. Norton	59	Director, Chairman of the Board, President and Chief Executive Officer	III
Bruce M. Bowen.....	51	Director and Executive Vice President	III
Steven J. Mencarini	47	Senior Vice President and Chief Financial Officer	
Kleyton L. Parkhurst	40	Senior Vice President and Treasurer	
Terrence O'Donnell.	59	Director	II
Lawrence S. Herman.	59	Director	I
C. Thomas Faulders, III.....	53	Director	I
Thomas L. Hewitt (1)	64	Director	II

(1) Thomas L. Hewitt resigned his Director position effective June 13, 2003. There were no disagreements between Mr. Hewitt and the Company.

ITEM 11. EXECUTIVE COMPENSATION

See introductory paragraph of this Part III.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

See introductory paragraph of this Part III.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about ePlus' common stock that may be issued upon the exercise of options, warrants, and rights under all of ePlus' existing equity compensation plans as of March 31, 2003, including ePlus' 1998 Long Term Incentive Plan, Amended and Restated Incentive Stock Option Plan, Amended and Restated Outside Director Stock Option Plan, Amended and Restated Nonqualified Stock Option Plan, and the Employee Stock Purchase Plan.

Plan Category	March 31, 2003		
	(a) Number of securities to be issued upon exercise of outstanding options warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,001,188	\$ 9.14	-
Equity compensation plans not approved by security holders	-	\$ -	-
Total	2,001,188	\$ 9.14	-

ITEM 13. CERTAIN RELATIONSHIPS AND SELECTED TRANSACTIONS

See introductory paragraph of this Part III.

ITEM 14. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their last evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

The consolidated financial statements listed in the accompanying Index to Financial Statements and Schedule are filed as a part of this report and incorporated herein by reference.

(a)(2) Financial Statement Schedule

The financial statement schedule listed in the accompanying Index to Financial Statements and Schedule are filed as a part of this report and incorporated herein by reference.

(b) Reports on Form 8-K

The Company did not file any Form 8-K's during the last quarter of the period covered by this report.

(c) Exhibit List

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.4	Agreement and Plan of Reorganization by and among SourceOne Computer Corporation, Robert Nash, Donna Nash, R. Wesley Jones, the shareholders of SourceOne Computer Corporation, ePlus inc. and ePlus Technology, inc., dated as of October 2, 2001 (Incorporated herein by reference to Exhibit 2 filed as part of the Registrant's Form 8-K dated October 12, 2001).
2.5	Asset Purchase and Sale Agreement by and between ePlus Technology, inc., Elcom Services Group, Inc., Elcom, Inc., and Elcom International, Inc., dated March 25, 2002 (Incorporated herein by reference to Exhibit 2 filed as part of the Registrant's Form 8-K dated April 5, 2002).
2.6	Amendment to Asset Purchase and Sale Agreement by and between ePlus Technology, inc., Elcom Services Group, Inc., Elcom, Inc., and Elcom International, Inc., dated March 29, 2002 (Incorporated herein by reference to Exhibit 2.1 filed as part of the Registrant's Form 8-K dated April 5, 2002).
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 September 30, 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 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).
- 10.1 Form of Indemnification Agreement entered into between the Company and its directors and officers (Incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-11737)).
- 10.2* Form of Employment Agreement between the Registrant and Phillip G. Norton (Incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (File No. 333-11737))
- 10.3* Form of Employment Agreement between the Registrant and Bruce M. Bowen (Incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (File No. 333-11737)).
- 10.4* Form of Employment Agreement between the Registrant and Kleyton L. Parkhurst (Incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (File No. 333-11737)).
- 10.5* Form of Employment Agreement between the Registrant and Steven J. Mencarini (Incorporated herein by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended March 31, 1997).
- 10.6* Form of Employment Agreement between the Registrant and Nadim Achi (Incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on July 31, 1998).
- 10.7* MLC Master Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997).
- 10.8* Amended and Restated Incentive Stock Option 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, 1997).
- 10.9* Amended and Restated Outside Director Stock Option Plan (Incorporated herein by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997).
- 10.10* Amended and Restated Nonqualified Stock Option Plan (Incorporated herein by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997).
- 10.11* 1997 Employee Stock Purchase Plan (Incorporated herein by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1997).
- 10.12 1998 Long Term Incentive Plan (Incorporated herein by reference to Exhibit 1.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1998).
- 10.13 First Amendment to Loan and Security Agreement dated March 12, 1997 between MLC Group, Inc. and Heller Financial, Inc. (Incorporated herein by reference to Exhibit 5.2 to the Company's Current Report on Form 8-K filed on March 28, 1997).

- 10.15 Form of Irrevocable Proxy and Stock Rights Agreement (Incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-11737)).
- 10.16 Credit Agreement dated January 19, 2001 between ePlus, inc., ePlus Group, inc., ePlus Government, inc., and ePlus Capital, inc., with National City Bank, Inc., as Agent (Incorporated herein by reference to Exhibit 5.1 to the Company's Current Report on Form 8-K filed on February 2, 2001).
- 10.17 Business Financing Agreement dated September 8, 2000 between Deutsche Financial Services Corporation and ePlus Technology, inc. (Incorporated herein by reference to Exhibit 5.1 to the Company's Current Report on Form 8-K filed on September 22, 2000).
- 10.18 Agreement for Wholesale Financing dated September 8, 2000 between Deutsche Financial Services and ePlus Technology, inc. (Incorporated herein by reference to Exhibit 5.2 to the Company's Current Report on Form 8-K filed on September 22, 2000).
- 10.19 Paydown Addendum to Business Financing Agreement between Deutsche Financial Services and ePlus Technology, inc. (Incorporated herein by reference to Exhibit 5.3 to the Company's Current Report on Form 8-K filed on September 22, 2000).
- 10.20 Limited Guaranty dated September 8, 2000 between Deutsche Financial Services and ePlus, inc. (Incorporated herein by reference to Exhibit 5.3 to the Company's Current Report on Form 8-K filed on September 22, 2000).
- 10.21 Agreement for Wholesale Financing between Deutsche Financial Services and ePlus Technology of PA, inc., dated February 12, 2001 (Incorporated herein by reference to Exhibit 5.1 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.22 Business Financing Agreement between Deutsche Financial Services Corporation and ePlus Technology of PA, inc., dated February 12, 2001 (Incorporated herein by reference to Exhibit 5.2 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.23 Addendum to Business Financing Agreement and Agreement for Wholesale Financing between Deutsche Financial Services Corporation and ePlus Technology of PA, inc., dated February 12, 2001 (Incorporated herein by reference to Exhibit 5.3 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.24 Limited Guaranty for ePlus Technology of PA, Inc. to Deutsche Financial Services Corporation by ePlus, inc., dated February 12, 2001 (Incorporated herein by reference to Exhibit 5.4 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.25 Intercreditor Subordination Agreement between Deutsche Financial Services Corporation and IBM Credit Corporation and ePlus Technology of PA, inc., dated February 26, 2001 (Incorporated herein by reference to Exhibit 5.5 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.26 Agreement for Wholesale Financing between Deutsche Financial Services Corporation and ePlus Technology of NC, inc., dated February 12, 2001 (Incorporated herein by reference to Exhibit 5.6 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.27 Addendum to Agreement for Wholesale Financing between ePlus Technology of NC, inc. and Deutsche Financial Services Corporation, dated February 12, 2001 (Incorporated herein by reference to Exhibit 5.7 to the Company's Current Report on Form 8-K filed on March 13, 2001).

- 10.28 Addendum to Agreement for Wholesale Financing between ePlus Technology of NC, inc. and Deutsche Financial Services Corporation, dated February 12, 2001 (Incorporated herein by reference to Exhibit 5.8 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.29 Addendum to Business Financing Agreement and Agreement for Wholesale Financing between ePlus Technology, inc. and Deutsche Financial Services Corporation, dated February 12, 2001, amending the Business Financing Agreement and Wholesale Financing Agreement, dated August 31, 2000 (Incorporated herein by reference to Exhibit 5.9 to the Company's Current Report on Form 8-K filed on March 13, 2001).
- 10.30 Deed of Lease between CALEAST INDUSTRIAL INVESTORS, LLC (Landlord) and ePlus inc. (Tenant) (Incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended March 31, 2002).
- 21.1 Subsidiaries of the Company
- 23.1 Consent of Deloitte & Touche LLP
- 99.1 Statement of Chief Executive Officer Pursuant to 18 U.S.C. § 1350.
- 99.2 Statement of Chief Financial Officer Pursuant to 18 U.S.C. § 1350.

* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ PHILLIP G. NORTON

By: Phillip G. Norton, Chairman of the Board,
President and Chief Executive Officer
Date: June 26, 2003

/s/ BRUCE M. BOWEN

By: Bruce M. Bowen, Director and Executive
Vice President
Date: June 26, 2003

/s/ STEVEN J. MENCARINI

By: Steven J. Mencarini, Senior Vice President,
Chief Financial Officer, Principal Accounting Officer
Date: June 26, 2003

/s/ C. THOMAS FAULDERS, III

By: C. Thomas Faulders, III, Director
Date: June 26, 2003

/s/ LAWRENCE S. HERMAN

By: Lawrence S. Herman, Director
Date: June 26, 2003

/s/ TERRENCE O'DONNELL

By: Terrence O'Donnell, Director
Date: June 26, 2003

CERTIFICATION

I, Phillip G. Norton, Chairman of the Board, President and Chief Executive Officer of ePlus inc., certify that:

1. I have reviewed this annual report on Form 10-K of ePlus inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date"); and
 - c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 26, 2003

/s/ PHILLIP G. NORTON

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

CERTIFICATION

I, Steven J. Mencarini, Senior Vice President and Chief Financial Officer of ePlus inc., certify that:

1. I have reviewed this annual report on Form 10-K of ePlus inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date"); and
 - c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 26, 2003

/s/ STEVEN J. MENCARINI
By: Steven J. Mencarini
Senior Vice President and Chief Financial Officer

ePlus inc. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
ePlus inc.
Herndon, Virginia

We have audited the accompanying consolidated balance sheets of *ePlus inc.* and subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years ended March 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of *ePlus inc.* and subsidiaries as of March 31, 2002 and 2003, and the results of their operations and their cash flows for each of the three years ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

McLean, Virginia
June 16, 2003

ePlus inc. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>As of March 31, 2002</u>	<u>As of March 31, 2003</u>
ASSETS		
Cash and cash equivalents	\$ 28,223,503	\$ 27,784,090
Accounts receivable, net of allowance for doubtful accounts of \$3,719,207 and \$3,346,055 as of March 31, 2002 and 2003, respectively	41,466,362	38,384,841
Notes receivable	227,914	53,098
Inventories	871,857	1,373,168
Investment in leases and leased equipment - net	169,087,078	182,169,324
Property and equipment - net	6,144,061	5,249,087
Deferred tax asset	5,471,658	-
Other assets	5,419,813	4,779,946
Goodwill	22,083,308	19,147,132
TOTAL ASSETS	<u>\$ 278,995,554</u>	<u>\$ 278,940,686</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable - equipment	\$ 3,898,999	\$ 5,635,776
Accounts payable - trade	15,104,985	25,914,385
Salaries and commissions payable	491,716	619,860
Accrued expenses and other liabilities	19,091,729	13,978,942
Income taxes payable	364,183	-
Recourse notes payable	4,659,982	2,736,298
Nonrecourse notes payable	129,095,051	115,678,353
Deferred tax liability	-	4,760,029
Total Liabilities	<u>172,706,645</u>	<u>169,323,643</u>
COMMITMENTS AND CONTINGENCIES (Note 8)	-	-
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued or outstanding	-	-
Common stock, \$.01 par value; 50,000,000 authorized; 10,461,970 issued and 10,395,870 outstanding at March 31, 2002 and 10,540,135 issued and 9,451,651 outstanding at March 31, 2003	\$ 104,619	\$ 105,400
Additional paid-in capital	62,414,067	62,905,727
Treasury stock, at cost, 66,100 and 1,088,484 shares, respectively	(574,800)	(7,511,124)
Retained earnings	44,345,023	54,057,732
Accumulated other comprehensive income - Foreign currency translation adjustment	-	59,308
Total Stockholders' Equity	<u>106,288,909</u>	<u>109,617,043</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 278,995,554</u>	<u>\$ 278,940,686</u>

See Notes to Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended March 31,		
	2001	2002	2003
REVENUES			
Sales of equipment	\$ 216,183,181	\$ 127,753,315	\$ 219,208,998
Sales of leased equipment	34,031,381	9,353,088	6,095,830
	<u>250,214,562</u>	<u>137,106,403</u>	<u>225,304,828</u>
Lease revenues	42,693,839	48,850,017	50,520,293
Fee and other income	13,677,495	19,028,926	23,821,025
	<u>56,371,334</u>	<u>67,878,943</u>	<u>74,341,318</u>
TOTAL REVENUES (1)	<u>306,585,896</u>	<u>204,985,346</u>	<u>299,646,146</u>
COSTS AND EXPENSES			
Cost of sales, equipment	182,473,685	111,598,231	197,787,657
Cost of sales, leased equipment	33,329,403	9,043,932	5,891,789
	<u>215,803,088</u>	<u>120,642,163</u>	<u>203,679,446</u>
Direct lease costs	16,534,992	9,578,631	6,582,409
Professional and other fees	3,363,324	2,717,618	3,188,046
Salaries and benefits	30,610,437	32,797,303	46,181,745
General and administrative expenses	10,766,333	12,517,696	15,233,858
Interest and financing costs	15,522,897	11,810,414	8,308,382
	<u>76,797,983</u>	<u>69,421,662</u>	<u>79,494,440</u>
TOTAL COSTS AND EXPENSES (2)	<u>292,601,071</u>	<u>190,063,825</u>	<u>283,173,886</u>
Earnings before provision for income taxes	<u>13,984,825</u>	<u>14,921,521</u>	<u>16,472,260</u>
Provision for income taxes	<u>5,666,625</u>	<u>6,009,798</u>	<u>6,759,551</u>
NET EARNINGS	<u>\$ 8,318,200</u>	<u>\$ 8,911,723</u>	<u>\$ 9,712,709</u>
NET EARNINGS PER COMMON SHARE - BASIC	<u>\$ 0.86</u>	<u>\$ 0.87</u>	<u>\$ 0.97</u>
NET EARNINGS PER COMMON SHARE - DILUTED	<u>\$ 0.80</u>	<u>\$ 0.85</u>	<u>\$ 0.96</u>
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	9,625,891	10,235,129	10,061,088
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	10,383,467	10,458,235	10,109,809

(1) Includes amounts from related parties of \$14,923,606, \$147,305 and \$145,962 for the fiscal years ended March 31, 2001, 2002 and 2003, respectively.

(2) Includes amounts from related parties of \$15,588,046, \$902,818 and \$486,520 for the fiscal years ended March 31, 2001, 2002 and 2003, respectively.

See Notes to Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2001	2002	2003
Cash Flows From Operating Activities:			
Net earnings	\$ 8,318,200	\$ 8,911,723	\$ 9,712,709
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,248,760	5,644,713	4,510,705
Provision for credit losses	1,772,768	1,488,706	616,074
Deferred taxes	(1,072,615)	(5,161,182)	10,231,687
(Gain) Loss on sale of operating lease equipment	(333,299)	240,137	1,112,697
Adjustment of basis to fair market value of operating lease equipment and investments	1,593,760	1,001,169	-
Payments from lessees directly to lenders	(6,112,406)	(489,962)	(291,281)
Expense related to issuance of warrants	225,000	-	-
Loss (Gain) on disposal of property and equipment	14,765	96,148	(47,562)
Changes in:			
Accounts receivable	3,214,562	18,079,347	2,465,447
Notes receivable	(1,971,904)	1,634,574	174,816
Inventories	(177,422)	1,899,869	(501,311)
Other assets (1)	8,375,710	(3,747,399)	609,853
Accounts payable - equipment	(13,748,732)	(5,327,815)	1,736,777
Accounts payable - trade	(9,559,862)	(7,513,939)	10,809,400
Salaries and commissions payable, accrued expenses and other liabilities	8,679,370	(4,405,675)	(5,348,826)
Net cash provided by operating activities	<u>10,466,655</u>	<u>12,350,414</u>	<u>35,791,185</u>
Cash Flows From Investing Activities:			
Proceeds from sale of operating equipment	922,549	-	1,179,485
Purchase of operating lease equipment	(2,568,445)	(931,556)	(11,627,961)
Increase in investment in direct financing and sales-type leases (2)	(10,197,101)	(27,457,697)	(19,761,290)
Proceeds from sale of property and equipment	-	3,907	-
Purchases of property and equipment	(3,840,655)	(1,644,879)	(1,549,190)
Cash used in acquisitions, net of cash acquired	-	(3,268,334)	-
Increase in other assets (3)	(2,942,046)	(373,959)	-
Net cash used in investing activities	<u>(18,625,698)</u>	<u>(33,672,518)</u>	<u>(31,758,956)</u>

ePlus inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

	2001	2002	2003
Cash Flows From Financing Activities:			
Borrowings:			
Nonrecourse	\$ 90,908,400	\$ 81,520,753	\$ 80,997,406
Recourse	325,446	30,381	10,230,115
Repayments:			
Nonrecourse	(76,961,083)	(51,498,928)	(78,130,384)
Recourse	(183,515)	(604,515)	(8,089,225)
Pay-off of recourse debt due to settlement	-	-	(98,660)
Write-off of non-recourse debt due to bankruptcy	-	-	(1,996,596)
Purchase of treasury stock	-	(574,800)	(6,936,324)
Proceeds from issuance of capital stock, net of expenses	307,095	165,816	492,718
Proceeds from sale of stock, net of underwriting	25,936,388	-	-
Repayments of lines of credit	(29,549,289)	(4,027,283)	(1,000,000)
	<u>10,783,442</u>	<u>25,011,424</u>	<u>(4,530,950)</u>
Net cash provided by (used in) financing activities			
Effect of exchange rate changes on cash	-	-	59,308
Net Increase (Decrease) in Cash and Cash Equivalents	2,624,399	3,689,320	(439,413)
Cash and Cash Equivalents, Beginning of Period	<u>21,909,784</u>	<u>24,534,183</u>	<u>28,223,503</u>
Cash and Cash Equivalents, End of Year	<u>\$ 24,534,183</u>	<u>\$ 28,223,503</u>	<u>\$ 27,784,090</u>
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	<u>\$ 849,598</u>	<u>\$ 1,952,352</u>	<u>\$ 4,991,426</u>
Cash paid for income taxes	<u>\$ 4,559,378</u>	<u>\$ 7,164,082</u>	<u>\$ 4,459,405</u>

Schedule of Noncash Investing and Financing Activities:

Common stock issued for acquisitions	-	5,880,650	-
Liabilities assumed in purchase transactions	\$ -	\$ 4,029,331	\$ -

- (1) Includes amounts (used by) provided by related parties of \$(27,510), \$98,202 and \$853 for the fiscal years ended March 31, 2001, 2002 and 2003.
- (2) Includes amounts provided by related parties of \$14,254,197, \$0 and \$0 for the fiscal years ended March 31, 2001, 2002 and 2003.
- (3) Includes amounts provided by (used by) related parties of \$1,376,246, \$(628,218) and \$0 for the fiscal years ended March 31, 2001, 2002 and 2003.

See Notes To Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional		Treasury	Retained	Accumulated	
	Shares	Par Value	Paid-in	Capital			Stock	Earnings
Balance, March 31, 2000	7,958,433	79,584	29,926,168	-	-	27,115,100	-	57,120,852
Issuance of shares for option exercise	37,685	7,476	155,861	-	-	-	-	163,337
Issuance of shares to employees	24,080	241	143,517	-	-	-	-	143,758
Issuance of shares for stock purchase warrant	709,956	-	-	-	-	-	-	-
Expense related to stock purchase warrant	-	-	225,000	-	-	-	-	225,000
Issuance of common stock-secondary offering	1,000,000	10,000	25,926,388	-	-	-	-	25,936,388
Net earnings	-	-	-	-	-	8,318,200	-	8,318,200
Balance, March 31, 2001	9,730,154	\$ 97,301	\$ 56,376,934	\$ -	\$ -	\$ 35,433,300	\$ -	\$ 91,907,535
Issuance of shares for option exercise	570	6	(89,668)	-	-	-	-	(89,662)
Issuance of shares to employees	33,414	334	253,129	-	-	-	-	253,463
Issuance of shares in business combination	697,832	6,978	5,873,672	-	-	-	-	5,880,650
Purchase of treasury stock	(66,100)	-	-	(574,800)	-	-	-	(574,800)
Net earnings	-	-	-	-	-	8,911,723	-	8,911,723
Balance, March 31, 2002	10,395,870	\$ 104,619	\$ 62,414,067	\$ (574,800)	\$ -	\$ 44,345,023	\$ -	\$ 106,288,909
Issuance of shares for option exercise	39,850	398	271,487	-	-	-	-	271,885
Issuance of shares to employees	38,315	383	220,173	-	-	-	-	220,556
Issuance of shares in business combination	-	-	-	-	-	-	-	-
Purchase of treasury stock	(1,022,384)	-	(6,936,324)	-	-	-	-	(6,936,324)
Net earnings	-	-	-	-	-	9,712,709	-	9,712,709
Foreign currency translation adjustment	-	-	-	-	-	-	59,308	59,308
Total comprehensive income	-	-	-	-	-	-	-	9,772,017
Balance, March 31, 2003	9,451,651	\$ 105,400	\$ 62,905,727	\$ (7,511,124)	\$ -	\$ 54,057,732	\$ 59,308	\$ 109,617,043

See Notes to Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and For the Years Ended March 31, 2001, 2002, and 2003**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - Effective October 18, 1999, MLC Holdings, Inc. changed its name to ePlus inc. ("ePlus" or the "Company"). Effective January 31, 2000, ePlus inc.'s wholly-owned subsidiaries MLC Group, Inc., MLC Federal, Inc., MLC Capital, Inc., PC Plus, Inc., MLC Network Solutions, Inc. and Educational Computer Concepts, Inc. changed their names to ePlus Group, inc., ePlus Government, inc., ePlus Capital, inc., ePlus Technology, inc., ePlus Technology of NC, inc. and ePlus Technology of PA, inc., respectively. Effective March 31, 2003, ePlus Technology of NC, inc. and ePlus Technology of PA, inc. were merged into ePlus Technology, inc.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

BUSINESS COMBINATIONS - On October 4, 2001, the Company purchased all the outstanding stock of SourceOne Computer Corporation ("SourceOne"), a technology and services company located in Silicon Valley. Total consideration paid of \$2,807,500 included \$800,006 in cash and 274,999 shares of unregistered common stock, valued at \$7.30 per share. The issuance of these securities was made in reliance on an exemption from registration provided by Section 4(2) or Regulation D of the Securities Act, as amended, as a transaction by an issuer not involving any public offering. The shareholders of SourceOne represented their intention to acquire the securities for investment only and not with a view to or for distribution in connection with such transaction, and an appropriate legend was affixed to the share certificates issued in the transaction. The shareholders of SourceOne had adequate access to information about ePlus through information made available to the shareholders of SourceOne. The shareholders of SourceOne were granted certain registration rights in connection with the transaction.

ASSET PURCHASES - On May 15, 2001, the Company purchased certain assets and assumed certain liabilities of ProcureNet, Inc. The primary software assets acquired were OneSource, a comprehensive e-procurement software solution, MarketBuilder, a marketplace software solution, Common Language Generator software that is used for electronic catalogue cleaning and enrichment, several registered and applied for patents, trademarks and copyrights. The total consideration was approximately \$5.9 million, which included \$1 million in cash, 422,833 shares of unregistered common stock valued at \$9.16 per share, and the remainder was the assumption of certain liabilities. The acquisition was accounted for as a purchase, and the assets were placed in two new wholly-owned subsidiaries: ePlus Systems, inc. and ePlus Content Services, inc.

On March 29, 2002, the Company purchased certain fixed assets, customer lists, and contracts, and assumed certain liabilities, relating to Elcom International, Inc.'s ("Elcom") IT fulfillment and IT professional services business. The Elcom purchase added offices in Boston, San Diego, New Jersey, and New York, NY. The purchase price included \$2.2 million in cash and the assumption of certain liabilities of approximately \$0.1 million. The Company also obtained in the transaction 300,000 warrants for Elcom (NASDAQ: ELCO) common stock for \$1.03 per share.

REVENUE RECOGNITION - The Company sells information technology equipment to its customers and recognizes revenue from equipment sales at the time equipment is accepted by the customer. The Company is the lessor in a number of its transactions and these are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases." Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate. Under the direct financing and sales-type lease methods, the Company records the net investment in leases, which consists of the sum of the minimum lease term payments, initial direct costs, and unguaranteed residual value (gross investment) less the unearned income. The difference between the gross investment and the cost of the leased equipment for direct finance leases is recorded as unearned income at the inception of the lease. The unearned income is amortized over the life of the lease using the interest method. Under sales-type leases, the difference between the fair value and cost of the leased property (net margins) is recorded as revenue at the inception of the lease. The Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" effective January 1, 1997, as amended by SFAS No. 140. This standard establishes criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral in a secured borrowing. Certain assignments of direct finance leases made on a non-recourse basis by the Company after December 31, 1996 meet the criteria for surrender of control set forth by SFAS No. 125 and have therefore been treated as sales for financial statement purposes. SFAS No. 125 prohibits the retroactive restatement of transactions consummated prior to January 1, 1997.

Sales of leased equipment represents revenue from the sales of equipment subject to a lease in which the Company is the lessor. If the rental stream on such lease has non-recourse debt associated with it, sales revenue is recorded at the amount of consideration received, net of the amount of debt assumed by the purchaser. If there is no non-recourse debt associated with the rental stream, sales revenue is recorded at the amount of gross consideration received, and costs of sales is recorded at the book value of the lease. Sales of equipment represents revenue generated through the sale of equipment sold primarily through the Company's technology business unit. For equipment sold through the Company's technology business unit subsidiaries, the dealer margin is presented in equipment sales revenue and cost of equipment sales.

Lease revenues consist of rentals due under operating leases and amortization of unearned income on direct financing and sales-type leases. Equipment under operating leases is recorded at cost and depreciated on a straight-line basis over the lease term to the Company's estimate of residual value.

The Company assigns all rights, title, and interests in a number of its leases to third-party financial institutions without recourse. These assignments are accounted for as sales since the Company has completed its obligations at the assignment date, and the Company retains no ownership interest in the equipment under lease.

Revenue from sales of procurement software is recognized in accordance with the 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, Software Revenue Recognition" and SOP 98-9 "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions". We recognize revenue when all the following criteria exist: when 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 on software arrangements involving multiple elements be allocated to each element on the relative fair values

of the elements and recognized when earned. Revenue relative 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.

Amounts charged for the Company's Procure+ service are recognized as services are rendered. Amounts charged for the Manage+ service are recognized on a straight-line basis over the contractual 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; and (4) interest and other miscellaneous income. These revenues are included in fee and other income in our consolidated statements of earnings.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, or SAB 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. There was no effect of implementing SAB 101 on the consolidated financial statements.

In July 2000, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 99-19, "Reporting Revenue Gross as a Principal verses Net as an Agent," which addresses whether a company should recognize revenue based on the gross amount billed to the customer because it has earned revenue from the sale of the goods or whether the company should recognize revenue based on the net amount retained because, in substance, it has earned a commission. In September 2000, the EITF reached a consensus on Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs," which addresses the statement of operations classification of shipping and handling fees billed to customers and shipping and handling costs incurred by companies that sell goods. The adoption of EITF Issues No. 99-19 and No. 00-10 in the fourth quarter of fiscal 2001 did not have a material impact on our financial position or results of operations.

RESIDUALS - Residual values, representing the estimated value of equipment at the termination of a lease, are recorded in the consolidated financial statements at the inception of each sales-type or direct financing lease as amounts estimated by management based upon its experience and judgment. The residual values for operating leases are included in the leased equipment's net book value.

The Company evaluates residual values on an ongoing basis and records any required adjustments. In accordance with generally accepted accounting principles, no upward revision of residual values is made subsequent to lease inception. Residual values for sales-type and direct financing leases are recorded at their net present value and the unearned income is amortized over the life of the lease using the interest method.

RESERVE FOR CREDIT LOSSES - The reserve for credit losses (the "reserve") 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).

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include short-term repurchase agreements with an original maturity of three months or less.

INVENTORIES - Inventories are stated at the lower of cost (weighted average basis) or market.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years.

INVESTMENTS - The Company has a 5% membership interest in MLC/CLC LLC, a joint venture to which the Company sold leased equipment. MLC/CLC LLC stopped purchasing leased equipment prior to the year ending March 31, 2001. The Company recorded an impairment of \$628,218 during the year ended March 31, 2002 on this investment. The Company wrote off \$420,711 related to an investment in the equity of a start-up venture in 2002 as the underlying value did not support the carrying amount of the Company's investment.

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." Approximately \$0.2 million and \$1.1 million of internal use software was capitalized during the years ended March 31, 2003 and 2002, respectively which is included in the accompanying consolidated balance sheet as a component of property and equipment.

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. \$0.3 million of development costs have been capitalized for the year ended March 31, 2003. No development costs were capitalized for the year ended March 31, 2002.

INCOME TAXES - Deferred income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income tax assets and liabilities are based on the difference between financial statement and tax bases of assets and liabilities, using tax rates currently in effect.

ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain items have been reclassified in the March 31, 2001 and 2002 financial statements to conform to the March 31, 2003 presentation.

COMPREHENSIVE INCOME - Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statements of Stockholders' Equity.

EARNINGS PER SHARE - Earnings per share (EPS) have been calculated in accordance with SFAS No. 128, "Earnings per Share." In accordance with SFAS No. 128, basic EPS amounts were

calculated based on weighted average shares outstanding of 9,625,891 in fiscal 2001, 10,235,129 in 2002, and 10,061,088 in 2003. Diluted EPS amounts were calculated based on weighted average shares outstanding and common stock equivalents of 10,383,467 in fiscal 2001, 10,485,235 in 2002, and 10,109,809 in 2003. Additional shares included in the diluted earnings per share calculations are attributable to incremental shares issuable upon the assumed exercise of stock options and other common stock equivalents.

STOCK BASED COMPENSATION – As of March 31, 2003, the company has four stock-based employee compensation plans, which are described more fully in Note 11. 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:

	Year Ended March 31,		
	2001	2002	2003
Net earnings, as reported	\$ 8,318,200	\$ 8,911,723	\$ 9,712,709
Stock Based Compensation Expense	<u>(2,440,487)</u>	<u>(3,125,488)</u>	<u>(3,653,928)</u>
Net earnings, pro forma	<u>\$ 5,877,713</u>	<u>\$ 5,786,235</u>	<u>\$ 6,058,781</u>
Basic earnings per share, as reported	\$0.86	\$0.87	\$0.97
Basic earnings per share, pro forma	\$0.61	\$0.57	\$0.60
Diluted earnings per share, as reported	\$0.80	\$0.85	\$0.96
Diluted earnings per share, pro forma	\$0.57	\$0.55	\$0.60

CAPITAL STRUCTURE - On April 17, 2000 the Company completed a secondary offering of 1,000,000 shares of its common stock at a price of \$28.50 per share. Net proceeds to the Company were \$25,936,388.

On May 25, 2000, the Company issued a common stock purchase warrant to a business partner which allowed the holder to purchase up to 50,000 shares of the Company's common stock at a price of \$18.75 per share over a two-year period beginning July 1, 2000. The purchase warrant agreement was terminated on April 20, 2001, due to the insolvency of the business partner.

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 authorizes 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.

During the years ended March 31, 2002 and 2003, the Company repurchased 66,100 and 1,022,384 shares of its outstanding common stock for a total of \$574,800 and \$6,936,323. Since the inception of the Company's initial repurchase program on September 20, 2001, as of March 31, 2003, the Company had repurchased 1,088,484 shares of its outstanding common stock at an average cost of \$6.90 per share for a total of \$7,511,123. Of the shares repurchased, 331,551 shares were repurchased as a result of a settlement that occurred during the quarter ended September 30, 2002.

RECENT ACCOUNTING PRONOUNCEMENTS - In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4 and 64, which address the accounting for gains and losses of the extinguishment of debt. SFAS No. 145 also rescinds SFAS No. 44 which addressed the accounting for intangible assets of motor carriers. Finally, SFAS No. 145 amends SFAS No. 13, "Accounting for Leases." The amendment to SFAS No. 13 eliminates inconsistencies between the accounting for sale-leaseback transactions and the accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. On May 15, 2002, the Company adopted SFAS No. 145. The Company's adoption of SFAS No. 145 did not have a material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies EITF No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs incurred in a Restructuring)." EITF No. 94-3 required that costs associated with an exit or disposal activity be recorded as liabilities as of the date the exit or disposal plan is approved by management. SFAS No. 146 requires a liability for a cost associated with an exit or disposal activity be recognized at fair value on the date the liability is incurred. The Company's adoption of SFAS No. 146 did not have a material impact on its financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002 and the Company does not expect that adoption of the recognition and measurement provisions will have a material impact on its financial statements. The Company adopted Interpretation No. 45 effective December 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company adopted SFAS No. 148 in the fourth quarter of the current fiscal year and its adoption did not have a material impact on its financial statements.

In January 2003, the FASB issued Interpretation 46, “Consolidation of Variable Interest Entities.” In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company adopted Interpretation No. 46 in the fourth quarter of the current fiscal year and its adoption did not have a material impact on its financial statements.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies accounting and reporting of derivative instruments and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified and for hedging relationships designated after June 30, 2003. The Company does not expect that the adoption of SFAS No. 149 will have a material impact on its financial statements.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, except for mandatorily redeemable financial instruments. Mandatorily redeemable financial instruments are subject to the provisions of this statement beginning on January 1, 2004. The Company does not expect that the adoption of SFAS No. 150 will have a material impact on its financial statements.

2. INVESTMENTS IN LEASES AND LEASED EQUIPMENT - NET

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

	As of March 31,	
	2002	2003
	(In Thousands)	
Investment in direct financing and sales-type leases – net	\$ 167,628	\$ 173,394
Investment in operating lease equipment – net	1,459	8,775
	<u>\$ 169,087</u>	<u>\$ 182,169</u>

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,	
	2002	2003
	(In Thousands)	
Minimum lease payments	\$ 161,788	\$ 168,385
Estimated unguaranteed residual value	25,880	26,631
Initial direct costs, net of amortization (1)	3,424	3,072
Less: Unearned lease income	(20,412)	(21,287)
Reserve for credit losses	(3,052)	(3,407)
Investment in direct finance and sales-type leases, net	<u>\$ 167,628</u>	<u>\$ 173,394</u>

(1) Initial direct costs are shown net of amortization of \$5,486 and \$3,691 at March 31, 2002 and 2003, respectively.

Future scheduled minimum lease rental payments as of March 31, 2003 are as follows:

	(In Thousands)	
Year ending March 31, 2004	\$	91,068
2005		48,025
2006		20,135
2007		5,258
2008 and thereafter		3,899
	<u>\$</u>	<u>168,385</u>

The Company's net investment in direct financing and sales-type leases is collateral for non-recourse and recourse equipment notes. See Note 6.

INVESTMENT IN OPERATING LEASE EQUIPMENT

Investment in operating leases primarily represents equipment leased for two to three years and leases that are short-term renewals on month-to-month status. The components of the net investment in operating lease equipment are as follows:

	As of March 31,	
	2002	2003
	(In Thousands)	
Cost of equipment under operating leases	\$ 13,916	\$ 12,824
Initial direct costs	14	-
Less: Accumulated depreciation and amortization	(12,471)	(4,049)
Investment in operating lease equipment, net	<u>\$ 1,459</u>	<u>\$ 8,775</u>

Future scheduled minimum lease rental payments as of March 31, 2003 are as follows:

	<u>(In Thousands)</u>
Year Ending March 31, 2004	\$5,082
2005	3,175
2006	1,116
2007	758
2008 and thereafter	<u>1,283</u>
	<u>\$ 11,414</u>

3. RESERVES FOR CREDIT LOSSES

As of March 31, 2002 and 2003, the Company's reserve for credit losses was \$6,771,339 and \$6,753,431, respectively.

The Company's reserves for credit losses are segregated between our accounts receivable and our investment in direct financing leases as follows (in thousands):

	<u>Accounts Receivable</u>	<u>Investment in Direct Financing Leases</u>	<u>Total</u>
Balance April 1, 2001	\$ 1,392	\$ 2,887	\$ 4,279
Provision for bad debts	1,324	165	1,489
Recoveries	(184)	-	(184)
Assumed in acquisitions	73	-	73
Write-offs and other	1,114	-	1,114
Balance March 31, 2002	<u>\$ 3,719</u>	<u>\$ 3,052</u>	<u>\$ 6,771</u>
Provision for bad debts	176	440	616
Recoveries	(140)	-	(140)
Write-offs and other	(409)	(85)	(494)
Balance March 31, 2003	<u>\$ 3,346</u>	<u>\$ 3,407</u>	<u>\$ 6,753</u>

Balances in "Write-offs and other" include actual write-offs and reclassifications from prior years. The Company assumed \$72,631 in reserve for credit losses in the acquisition of SourceOne Computer Corporation.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	As of March 31,	
	2002	2003
	(In Thousands)	
Furniture, fixtures and equipment	\$ 5,315	\$ 6,118
Vehicles	121	88
Capitalized software	5,638	5,924
Leasehold improvements	288	335
Less: Accumulated depreciation and amortization	(5,218)	(7,216)
Property and equipment, net	<u>\$ 6,144</u>	<u>\$ 5,249</u>

5. GOODWILL

As of March 31, 2003, the Company had goodwill, net of accumulated amortization, of \$19.1 million, a decrease of \$2.9 million from March 31, 2002 as a result of a settlement which occurred during the year. As of March 31, 2002, the Company had goodwill, net of accumulated amortization, of \$22.1 million which was subject to the transitional assessment provisions of SFAS No. 142. Amortization expense related to goodwill was \$692,161, before income taxes, for the year ended March 31, 2001. No goodwill amortization expense was recognized during the years ended March 31, 2002 and 2003.

As of March 31, 2002 and 2003, the Company has determined goodwill has not been impaired and that no potential impairment existed, based on testing performed on September 30, 2001 and 2002.

Changes in the carrying amount of goodwill for the years ended March 31, 2002 and 2003 are as follows:

	Financing Business Unit	Technology Sales Business Unit	Total
Goodwill (net), April 1, 2001	\$ 6,994,679	\$ 6,002,164	\$ 12,996,843
Goodwill acquired during the period	-	9,086,465	9,086,465
Impairment losses during the period	-	-	-
Goodwill (net), March 31, 2002	<u>\$ 6,994,679</u>	<u>\$ 15,088,629</u>	<u>\$ 22,083,308</u>
Goodwill acquired during the period	-	22,984	22,984
Impairment losses during the period	-	-	-
Other Adjustments during the period	(2,965,915)	6,755	(2,959,160)
Goodwill (net), March 31, 2003	<u>\$ 4,028,764</u>	<u>\$ 15,118,368</u>	<u>\$ 19,147,132</u>

The following pro forma information presents the Company's net income, as adjusted for the elimination of goodwill as set forth in SFAS No. 142 "Goodwill and Other Intangible Assets":

	For the years ended		
	March 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Net income, as reported	\$8,318,200	\$8,911,723	\$9,712,709
Amortization of goodwill, net of taxes	415,297	-	-
Pro forma net income	<u>\$8,733,497</u>	<u>\$8,911,723</u>	<u>\$9,712,709</u>
Pro forma net income per share, basic	<u>\$ 0.91</u>	<u>\$ 0.87</u>	<u>\$ 0.97</u>
Pro forma net income per share, diluted	<u>\$ 0.84</u>	<u>\$ 0.85</u>	<u>\$ 0.96</u>

6. RECOURSE AND NON-RECOURSE NOTES PAYABLE

Recourse and non-recourse obligations consist of the following:

	As of March 31,	
	2002	2003
	(In Thousands)	
Recourse equipment notes secured by related investments in leases with varying interest rates ranging from 6.9% to 7.9% in fiscal year 2002	\$ 498	\$ -
Recourse line of credit with a maximum balance of \$35,000,000 bearing interest at the LIBOR rate plus 150 basis points for thirty day draws, or, at the Company's option, prime for overnight draws expiring April 2004; 4.75% interest rate effective on balance as of March 31, 2002	1,000	-
Recourse line of credit with a maximum balance of \$33,000,000 bearing interest at prime less .5%	-	2,726
Recourse equipment notes with varying interest rates ranging from 7.13% to 8.25%, secured by related investment in equipment	98	10

	As of March 31,	
	2002	2003
	(In Thousands)	
	<hr/>	
Recourse note payable secured by investment in leases with 11% interest payable monthly, principal balance due October, 2006, and paid August 30, 2002	3,064	-
	<hr/>	
Total recourse obligations	\$4,660	\$2,736
	<hr/> <hr/>	
Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 2.55% to 13.50% in fiscal years 2002 and 2003	\$129,095	\$115,678
	<hr/> <hr/>	

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

Borrowings under the Company's \$35 million line of credit are subject to certain covenants regarding minimum consolidated tangible net worth, maximum recourse debt to net worth ratio, cash flow coverage, and minimum interest expense coverage ratio. The borrowings are secured by the Company's assets such as leases, receivables, inventory, and equipment. Borrowings are limited to the Company's collateral base, consisting of equipment, lease receivables and other current assets, up to a maximum of \$35 million. In addition, the credit agreement restricts, and under some circumstances prohibits, the payment of dividends.

Recourse and non-recourse notes payable as of March 31, 2003, mature as follows:

		Recourse Notes Payable	Non-recourse Notes Payable
		(In Thousands)	
		<hr/>	
Year ending March 31,	2004	\$ 2,736	\$ 64,805
	2005	-	36,138
	2006	-	10,977
	2007	-	2,544
	2008 and thereafter	-	1,214
		<hr/>	<hr/>
		\$ 2,736	\$ 115,678
		<hr/> <hr/>	

7. RELATED PARTY TRANSACTIONS

The Company provided loans and advances to employees, the balances of which amounted to \$69,042 and \$61,722 as of March 31, 2002 and 2003, respectively. Such balances are to be repaid from commissions earned on successful sales or financing arrangements obtained on behalf of the Company, or via payroll deductions.

During the year ended March 31, 2001, the Company sold leased equipment to MLC/CLC LLC, a joint venture in which the Company has a 5% ownership interest, that amounted to 5% of the Company's revenues. MLC/CLC LLC stopped purchasing leased equipment prior to the year ending March 31, 2001. Revenue recognized from the sales for the year ended March 31, 2001 was \$14,654,844. The basis for the equipment sold was \$14,254,197. The Company received an origination fee on leased equipment sold to the joint venture. During the years ended March 31, 2001 and 2002, the Company recorded impairment of the investment in the partnership of \$1,085,000 and \$628,218, respectively. In addition, the Company recognized \$268,762, \$147,305, and \$145,962 for the years ended March 31, 2001, 2002 and 2003 for accounting and administrative services provided to MLC/CLC LLC.

The Company leases certain office space from entities that are owned, in part, by executives of the Company and of subsidiaries of the Company. During the years ended March 31, 2001, 2002, and 2003, rent expense paid to these related parties was \$248,849, \$274,600, and \$486,520, respectively.

8. COMMITMENTS AND CONTINGENCIES

The Company leases office space and certain office equipment for the conduct of its business. Rent expense relating to these operating leases was \$1,222,389, \$1,984,833, and \$2,435,972 for the years ended March 31, 2001, 2002, and 2003, respectively. As of March 31, 2003, the future minimum lease payments are due as follows:

		(In Thousands)	
Year Ending March 31,	2004	\$	1,701
	2005		753
	2006		94
	2007		-
		\$	2,548

9. INCOME TAXES

A reconciliation of income taxes computed at the statutory federal income tax rate to the provision for income taxes included in the consolidated statements of earnings is as follows:

	For the Year Ended March 31,		
	2001	2002	2003
(In Thousands)			
Statutory federal income tax rate	34%	34%	35%
Income tax expense computed at the statutory federal rate	\$ 4,755	\$ 5,073	\$ 5,765
State income tax expense, net of federal tax	678	939	876
Non-taxable interest income	(15)	(9)	(11)
Non-deductible expenses	249	7	130
Provision for income taxes	\$ 5,667	\$ 6,010	\$ 6,760
Effective income tax rate	40.5%	40.3%	41.0%

The components of the provision for income taxes are as follows:

	For the Year Ended March 31,		
	2001	2002	2003
	(In Thousands)		
Current:			
Federal	\$ 5,237	\$ 8,836	\$ (3,008)
State	1,502	2,335	(464)
	<u>6,739</u>	<u>11,171</u>	<u>(3,472)</u>
Deferred:			
Federal	\$ (762)	\$ (4,249)	\$ 8,421
State	(310)	(912)	1,811
	<u>(1,072)</u>	<u>(5,161)</u>	<u>10,232</u>
	<u>\$ 5,667</u>	<u>\$ 6,010</u>	<u>\$ 6,760</u>

The components of the deferred tax (benefit) expense resulting from net temporary differences are as follows:

	For the Year Ended March 31,		
	2001	2002	2003
	(In Thousands)		
Alternative minimum tax	\$ 1,701	\$ -	\$ -
Lease revenue recognition	(198)	(3,639)	6,649
Other	(2,575)	(1,522)	3,583
	<u>\$ (1,072)</u>	<u>\$ (5,161)</u>	<u>\$ 10,232</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of items comprising the Company's deferred tax asset (liability) consists of the following:

	For the Year Ended March 31,		
	2001	2002	2003
	(In Thousands)		
Alternative minimum tax	\$ -	\$ -	\$ -
Lease revenue recognition	(2,841)	798	(8,232)
Allowance for doubtful accounts and credit reserves	2,377	3,890	3,322
Other	774	784	150
	<u>\$ 310</u>	<u>\$ 5,472</u>	<u>\$ (4,760)</u>

10. NONCASH INVESTING AND FINANCING ACTIVITIES

The Company recognized a reduction in recourse and non-recourse notes payable (Note 6) associated with its direct finance and operating lease activities from payments made directly by customers to third-party lenders amounting to \$33,004,241, \$13,431,543 and \$14,287,124 for the years ended March 31, 2001, 2002, and 2003, respectively. In addition, the Company realized a reduction in recourse and non-recourse notes payable from the sale of the associated assets and liabilities amounting to \$5,828,340, \$6,255,282 and \$12,453,541 for the years ended March 31, 2001, 2002, and 2003, respectively.

11. BENEFIT AND STOCK OPTION PLANS

The Company provides its employees with contributory 401(k) profit sharing plans. To be eligible to participate in the plan, employees must be at least 21 years of age and have completed a minimum service requirement. Full vesting in the plans vary from after the fourth to the sixth consecutive year of plan participation. Employer contribution percentages are determined by the Company and are discretionary each year. The Company's expense for the plans was \$370,082, \$(242,877) and \$235,394 for the years ended March 31, 2001, 2002 and 2003, respectively.

The Company has established a stock incentive program (the "Master Stock Incentive Plan") to provide an opportunity for directors, executive officers, independent contractors, key employees, and other employees of the Company to participate in the ownership of the Company. The Master Stock Incentive Plan provides for awards to eligible directors, employees, and independent contractors of the Company, of a broad variety of stock-based compensation alternatives under a series of component plans. These component plans include tax advantaged incentive stock options for employees under the Incentive Stock Option Plan, formula length of service based nonqualified options to non-employee directors under the Outside Director Stock Plan, nonqualified stock options under the Nonqualified Stock Option Plan, a program for employee purchase of Common Stock of the Company at 85% of fair market value under a tax advantaged Employee Stock Purchase Plan approved by the Board of Directors and effective September 16, 1998 and which ended December 31, 2002, as well as other restrictive stock and performance-based stock awards and programs which may be established by the Board of Directors. The aggregate number of shares reserved for grant under all plans that are a part of the Master Stock Incentive Plan represent a floating number equal to 20% of the issued and outstanding stock of the Company (after giving effect to pro forma assumed exercise of all outstanding options and purchase rights). The number that may be subject to options granted under the Incentive Stock Option Plan is also further capped at a maximum of 4,000,000 shares to comply with IRS requirements for a specified maximum. As of March 31, 2003, a total of 2,317,106 shares of common stock have been reserved for issuance upon exercise of options granted under the Plan, which encompasses the following component plans:

- a) the Incentive Stock Option Plan ("ISO Plan"), under which 1,849,601 options are outstanding or have been exercised as of March 31, 2003;
- b) the Nonqualified Stock Option Plan ("Nonqualified Plan"), under which 260,000 options are outstanding as of March 31, 2003;
- c) the Outside Director Stock Option Plan ("Outside Director Plan"), under which 63,707 are outstanding or have been exercised as of March 31, 2003;
- d) the Employee Stock Purchase Plan ("ESPP") under which 143,798 shares have been issued as of March 31, 2003.

The exercise price of options granted under the Master Stock Incentive Plan is equivalent to the fair market value of the Company's stock on the date of grant, or, in the case of the ESPP, not less than 85% of the lowest fair market value of the Company's stock during the purchase period, which is generally six months. Options granted under the plan have various vesting schedules with vesting periods ranging from one to five years. The weighted average fair value of options granted during the years ended March 31, 2001, 2002 and 2003 was \$9.86, \$5.14 and \$3.11 per share, respectively.

A summary of stock option activity during the three years ended March 31, 2003 is as follows:

	Number of Shares	Exercise Price Range	Weighted Average Exercise Price
Outstanding, April 1, 2000	1,265,945	-	-
Options granted	578,806	\$7.75 - \$17.38	\$13.09
Options exercised	(37,685)	\$7.25 - \$13.00	\$7.96
Options forfeited	(90,781)	\$7.25 - \$17.38	\$12.69
Outstanding, March 31, 2001	<u>1,716,285</u>		
Exercisable, March 31, 2001	<u>1,000,765</u>		
Outstanding, April 1, 2001	1,716,285	-	-
Options granted	728,150	\$6.24 - \$8.65	\$6.83
Options exercised	(570)	\$9.00	\$9.00
Options forfeited	(263,280)	\$6.24 - \$17.38	\$8.43
Outstanding, March 31, 2002	<u>2,180,585</u>		
Exercisable, March 31, 2002	<u>1,249,245</u>		
Outstanding, April 1, 2002	2,180,585	-	-
Options granted	77,000	\$6.23 - \$6.97	\$6.91
Options exercised	(39,850)	\$6.24 - \$9.00	\$6.85
Options forfeited	(216,547)	\$6.24 - \$17.38	\$10.35
Outstanding, March 31, 2003	<u>2,001,188</u>		
Exercisable, March 31, 2003	<u>1,450,718</u>		

Additional information regarding options outstanding as of March 31, 2003 is as follows:

Options Outstanding			Options Exercisable	
Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
2,001,188	6.6 years	\$9.14	1,450,718	\$9.24

Effective April 1, 1996, the Company adopted SFAS No. 123, as amended by SFAS No. 148. The Company has the option of either (1) continuing to account for stock-based employee compensation plans in accordance with the guidelines established by APB Opinion No. 25, "Accounting for Stock Issued to Employees" while providing the disclosures required under SFAS No. 123, or (2) adopting SFAS No. 123 accounting for all employee and non-employee stock compensation arrangements. The Company opted to continue to account for its stock-based awards using the intrinsic value method in accordance with APB Opinion No. 25. Accordingly, no

compensation expense has been recognized in the financial statements for employee stock arrangements. The following table summarizes the pro forma disclosures required by SFAS No. 123 assuming the Company had adopted the fair value method for stock-based awards to employees as of the beginning of fiscal year 2001:

	Year Ended March 31,		
	2001	2002	2003
Net earnings, as reported	\$ 8,318,200	\$ 8,911,723	\$ 9,712,709
Stock based compensation expense	<u>(2,440,487)</u>	<u>(3,125,488)</u>	<u>(3,653,928)</u>
Net earnings, pro forma	<u>\$ 5,877,713</u>	<u>\$ 5,786,235</u>	<u>\$ 6,058,781</u>
Basic earnings per share, as reported	\$0.86	\$0.87	\$0.97
Basic earnings per share, pro forma	\$0.61	\$0.57	\$0.60
Diluted earnings per share, as reported	\$0.80	\$0.85	\$0.96
Diluted earnings per share, pro forma	\$0.57	\$0.55	\$0.60

Under SFAS No. 123, the fair value of stock-based awards to employees is derived through the use of option pricing models that require a number of subjective assumptions. The Company's calculations were made using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the Year Ended March 31,		
	2001	2002	2003
Options granted under the Incentive Stock Option Plan:			
Expected life of option	5 years	5 years	5 years
Expected stock price volatility	97.87%	92.44%	46.02%
Expected dividend yield	0%	0%	0%
Risk-free interest rate	5.52%	4.13%	3.96%

During the years ended March 31, 2001, 2002 and 2003, no options were granted under the Nonqualified Stock Option Plan or the Outside Director Stock Option Plan.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of the Company's financial instruments is in accordance with the provisions of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." The valuation methods used by the Company are set forth below.

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

- These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.
- These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holding of a particular financial asset.
- SFAS No. 107 excludes from its disclosure requirements lease contracts and various significant assets and liabilities that are not considered to be financial instruments.

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

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	As of March 31, 2002		As of March 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In Thousands)				
Assets:				
Cash and cash equivalents	\$ 28,224	\$ 28,224	\$ 27,784	\$ 27,784
Liabilities:				
Non-recourse notes payable	129,095	128,181	115,678	116,489
Recourse notes payable	4,660	4,660	2,736	2,736

13. PRIVATE PLACEMENTS OF COMMON STOCK AND WARRANT

On December 10, 1999 the Company issued a purchase warrant to an outside business partner. The warrant allows the holder to purchase 7,500 shares of the Company's common stock at a price of \$23.00 per share and expires December 10, 2009.

On May 25, 2000 the Company issued a purchase warrant to an outside business partner. The warrant allowed the holder to purchase 50,000 shares of the Company's common stock at a price of \$18.75 per share. The purchase warrant agreement was terminated on April 20, 2001 due to insolvency of the business partner.

14. 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 technology sales business unit. The financing business unit offers lease-financing solutions to

corporations and governmental entities nationwide. The technology sales business unit sells information technology equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides Internet-based business-to-business supply chain management solutions for information technology and other operating resources. 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. Income relative to services generated by our proprietary software and services are included in the financing business unit.

The accounting policies of the segments are the same as those described in Note 1, "Organization and Summary of Significant Accounting Policies." 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.

The Company changed reporting segments during the year ended March 31, 2002. All prior year balances have been reclassified to conform to the new reporting segments.

	Financing Business Unit	Technology Sales Business Unit	Total
Twelve months ended March 31, 2001			
Sales of equipment	\$ 777,780	\$ 215,405,401	\$ 216,183,181
Sales of leased equipment	34,031,381	-	34,031,381
Lease revenues	42,693,839	-	42,693,839
Fee and other income	7,196,836	6,480,659	13,677,495
Total Revenues	84,699,836	221,886,060	306,585,896
Cost of sales	34,411,304	181,391,784	215,803,088
Direct lease costs	16,534,992	-	16,534,992
Selling, general and administrative expenses	20,772,486	23,967,608	44,740,094
Segment earnings	12,981,054	16,526,668	29,507,722
Interest expense	15,242,395	280,502	15,522,897
(Loss) earnings before income taxes	(2,261,341)	16,246,166	13,984,825
Assets	\$ 258,119,292	\$ 52,746,068	\$ 310,865,360

	Financing Business Unit	Technology Sales Business Unit	Total
Twelve months ended March 31, 2002			
Sales of equipment	\$ 1,057,862	\$ 126,695,453	\$ 127,753,315
Sales of leased equipment	9,353,088	-	9,353,088
Lease revenues	48,850,017	-	48,850,017
Fee and other income	10,085,448	8,943,478	19,028,926
Total Revenues	69,346,415	135,638,931	204,985,346
Cost of sales	11,872,337	108,769,826	120,642,163
Direct lease costs	9,578,631	-	9,578,631
Selling, general and administrative expenses	22,500,221	25,532,396	48,032,617
Segment earnings	25,395,226	1,336,709	26,731,935
Interest expense	11,156,721	653,693	11,810,414
Earnings before income taxes	14,238,505	683,016	14,921,521
Assets	\$ 228,505,936	\$ 50,489,618	\$ 278,995,554
Twelve months ended March 31, 2003			
Sales of equipment	2,007,743	\$ 217,201,255	\$ 219,208,998
Sales of leased equipment	\$ 6,095,830	-	6,095,830
Lease revenues	50,520,293	-	50,520,293
Fee and other income	10,190,392	13,630,633	23,821,025
Total Revenues	68,814,258	230,831,888	299,646,146
Cost of sales	9,391,356	194,288,090	203,679,446
Direct lease costs	6,582,409	-	6,582,409
Selling, general and administrative expenses	26,848,899	37,754,750	64,603,649
Segment earnings	25,991,594	(1,210,952)	24,780,642
Interest expense	7,832,220	476,162	8,308,382
Earnings (loss) before income taxes	18,159,374	(1,687,114)	16,472,260
Assets	\$ 226,238,171	\$ 52,702,515	\$ 278,940,686

15. QUARTERLY DATA - UNAUDITED

Condensed quarterly financial information is as follows (amounts in thousands, except per share amounts). Adjustments reflect the reclassification of certain prior period amounts to conform to current period presentation.

	First Quarter			Second Quarter		
	Previously Reported	Adjustments	Adjusted Amount	Previously Reported	Adjustments	Adjusted Amount
<i>Year Ended March 31, 2002</i>						
Sales	\$ 36,906	\$ -	\$ 36,906	\$ 30,667	\$ -	\$ 30,667
Total Revenues	53,293	-	53,293	47,146	-	47,146
Cost of Sales	31,779	-	31,779	25,846	-	25,846
Total Costs and Expenses	49,728	-	49,728	43,481	-	43,481
Earnings before provision for income taxes	3,565	-	3,565	3,665	-	3,665
Provision for income taxes	1,426	-	1,426	1,466	-	1,466
Net earnings	2,139	-	2,139	2,199	-	2,199
Net earnings per common share-Basic (1)	\$ 0.22		\$ 0.22	\$ 0.22		\$ 0.22
<i>Year Ended March 31, 2003</i>						
Sales	\$ 55,243	\$ -	\$ 55,243	\$ 64,296	\$ -	\$ 64,296
Total Revenues	72,175	-	72,175	82,329	(385)	81,944
Cost of Sales	49,924	-	49,924	57,002	(385)	56,617
Total Costs and Expenses	68,826	-	68,826	78,018	(385)	77,633
Earnings before provision for income taxes	3,349	-	3,349	4,311	-	4,311
Provision for income taxes	1,373	-	1,373	1,766	-	1,766
Net earnings	1,976	-	1,976	2,545	-	2,545
Net earnings per common share-Basic (1)	\$ 0.19		\$ 0.19	\$ 0.25		\$ 0.25
	Third Quarter			Fourth Quarter		
	Previously Reported	Adjustments	Adjusted Amount	Previously Reported	Adjustments	Adjusted Amount
<i>Year Ended March 31, 2002</i>						
Sales	\$ 39,716	\$ -	\$ 39,716	\$ 29,644	\$ -	\$ 29,644
Total Revenues	55,812	-	55,812	48,734	-	48,734
Cost of Sales	35,444	-	35,444	26,633	-	26,633
Total Costs and Expenses	52,251	-	52,251	44,604	-	44,604
Earnings before provision for income taxes	3,561	-	3,561	4,130	-	4,130
Provision for income taxes	1,424	-	1,424	1,693	-	1,693
Net earnings	2,137	-	2,137	2,437	-	2,437
Net earnings per common share-Basic (1)	\$ 0.20		\$ 0.20	\$ 0.23		\$ 0.23
<i>Year Ended March 31, 2003</i>						
Sales	\$ 53,785	\$ -	\$ 53,785	\$ 51,981	\$ -	\$ 51,981
Total Revenues	73,264	(284)	72,980	72,547	-	72,547
Cost of Sales	48,934	(284)	48,650	48,488	-	48,488
Total Costs and Expenses	68,868	(284)	68,584	68,131	-	68,131
Earnings before provision for income taxes	4,396	-	4,396	4,416	-	4,416
Provision for income taxes	1,802	-	1,802	1,818	-	1,818
Net earnings	2,594	-	2,594	2,598	-	2,598
Net earnings per common share-Basic (1)	\$ 0.26		\$ 0.26	\$ 0.27		\$ 0.27

(1) The sum of quarterly amounts may not equal the annual amount due to quarterly calculations being based on varying weighted average shares outstanding.

SCHEDULE II

ePlus inc. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS For the years ended March 31, 2001, 2002, and 2003 (In Thousands)

Description	Additions				Balance at end of period
	Balance at beginning of period	(1) Charged to costs and expenses	(2) Charged to other accounts	Deductions	
2003 Allowance for doubtful accounts and credit losses	\$6,771	\$ 616	\$ (494)	\$140	\$6,753
2002 Allowance for doubtful accounts and credit losses	\$4,279	\$1,489	\$1,187	\$184	\$6,771
2001 Allowance for doubtful accounts and credit losses	\$2,659	\$1,989	\$ -	\$369	\$4,279

Exhibit 21.1

Subsidiaries of the Company

ePlus Group, inc., a Commonwealth of Virginia corporation, a wholly-owned subsidiary

ePlus Technology, inc., a Commonwealth of Virginia corporation, a wholly-owned subsidiary

ePlus Government, inc., a Commonwealth of Virginia corporation, a wholly-owned subsidiary

ePlus Capital, inc., a State of Delaware corporation, a wholly-owned subsidiary

ePlus Content Services, inc., a Commonwealth of Virginia corporation, a wholly-owned subsidiary

ePlus Systems, inc., a Commonwealth of Virginia corporation, a wholly-owned subsidiary

ePlus Canada Company, registered in Canada, a wholly-owned subsidiary of *ePlus Capital, inc.*

MLC Leasing, SA. de CV., registered in Mexico, a wholly-owned subsidiary of *ePlus Group, inc.* and *ePlus Technology, inc.*