2001 ANNUAL REPORT

ePlus inc.

August 2001
A Letter to Our Shareholders:

Last year was a period of great accomplishment for ***e***Plus. We successfully completed a secondary offering, ramped up our e-commerce services, expanded our salesforce, signed a multiyear bank line, and converted a large number of new and existing customers to ***e***PlusSuite. And we accomplished these while maintaining one of ***e***Plus' most important hallmarks: profitability.

How we successfully navigated through the dot-com explosion, e-commerce hype, Y2K, and the bubble economy is a tribute to the strength of our management team, the commitment of our employees, and the strong fundamentals of our core businesses. Our management philosophy is based on sound values which guide us in every aspect of our business: always focus on the bottom line, mitigate risk, manage with vision, invest in proven concepts, and treat our customers, employees, vendors, and investors with respect.

Our core businesses — fixed asset leasing and management, and sales of new technology equipment and services — had a great year. As stand alone businesses, they are solid. As platforms to cross-sell the other's goods and services, they are better. But in combination with our proprietary technology and outsourced business services, they are terrific.

And useful.

That isn't a word that you hear many companies describe their business, but if we had to choose one that describes our customer-focused e-commerce platform, that would be it.

> *Useful:* be easy to install and easy to use, provide value above its cost, be able to integrate with legacy systems to preserve prior investments, channel information, create and enhance internal controls, reduce spend, increase productivity, lower direct costs, integrate financing, capture asset information, reduce overhead, integrate suppliers, process payables, match invoices, create online reporting, manage budgets, i.e. ***e***PlusSuite.

Today we believe ***e***Plus offers the most useful e-commerce platform in the industry. Recent successes bear this out. Marconi PLC, a leading worldwide provider of solutions and services based in the United Kingdom, selected Procure+ as the e-procurement solution it will market to its international clientele, but only after an exhaustive worldwide search for the best e-procurement solution. Michael Baker, Michigan State University and Martin Marietta are a few examples of clients that rely on ***e***Plus to automate their business processes. Integra, a leading distributor, uses ***e***Plus Content Services to provide enriched content for its e-commerce initiatives. A Fortune 100 company is using Finance+ and Manage+ to provide automated business processes for its domestic PC acquisitions. And Deltek, a leading business software, solutions and consulting company with 7,500 customers, has private labeled Procure+ which is integrated into and a module of its core software system.

Many investors in this marketplace are asking, where did all the money go? In the case of ***e***Plus, it's still in the bank. With cash of over $34 million at 6/30/01, our investments have been judicious, and we are in a great position to take advantage of marketing and acquisition opportunities. Our financial strength offers assurance to our customers, which by itself is a powerful competitive advantage in today's economy. We are opportunistically pursuing acquisitions to expand our geographic footprint, our product offerings, and our technology platform. Today's valuations give ***e***Plus a great advantage in the pursuit of customers and acquisitions.

The future holds many challenges, and many opportunities. In the next few quarters, the general economic slowdown has delayed purchasing and decision making in most industries. We aren't immune, but we are working very hard to expand market share. Our many competitive strengths will insure our long-term success.

On behalf of ***e***Plus, I would like to thank our employees, customers, and investors, for your confidence and continuing support of ***e***Plus.

Phillip G. Norton
Chairman, CEO and President

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2001

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

*e*Plus 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
None

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 [X] 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. [X]

The aggregate market value of the voting stock held by non-affiliates of the Company, computed by reference to the price at which the stock was sold as of June 20, 2001 was $35,875,863. The number of shares of Common Stock outstanding as of June 20, 2001, was 10,172,987.

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Part
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

PART I

ITEM 1. BUSINESS

*e*Plus inc. CORPORATE STRUCTURE

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

- *e*Plus Group, inc. ("*e*Plus Group" – name changed effective January 31, 2000 from MLC Group, Inc.);
- *e*Plus Technology of NC, inc. (name changed effective January 31, 2000 from MLC Network Solutions, Inc.);
- *e*Plus Technology of PA, inc. (name changed effective January 31, 2000 from Educational Computer Concepts, Inc. which conducted business as MLC Integrated, Inc.);
- *e*Plus Technology, inc. (name changed effective January 31, 2000 from PC Plus, Inc.);
- *e*Plus Government, inc. (name changed effective January 31, 2000 from MLC Federal, Inc.);
- *e*Plus Capital, inc. (name changed January 31, 2000 from MLC Capital, Inc.); and
- ePlus Systems, inc.
- ePlus Content Services, inc.
- MLC Leasing, S.A. de C.V., (a subsidiary wholly owned by *e*Plus Group, inc. and *e*Plus Technology of NC, inc.)

*e*Plus Group also has a 5% membership interest in MLC/CLC LLC and serves as its manager. *e*Plus Group previously had a 50% ownership interest in MLC/GATX Leasing Corporation which was the general partner of MLC/GATX Limited Partnership I. On December 31, 1998, *e*Plus Group terminated its ownership interest in MLC/GATX Leasing Corporation and purchased all of the assets of MLC/GATX Limited Partnership I. *e*Plus 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. *e*Plus Capital, inc. did not transact any business during the fiscal year ended March 31, 2001 and is not expected to transact business in the near future. On October 22, 1997, the Company formed MLC Leasing, S.A. de C.V., which is directly owned by *e*Plus Group, inc. and *e*Plus Technology of NC, 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. ePlus Systems, inc. and ePlus Content Services, inc. were incorporated on May 15, 2001 and are the entities that hold certain assets and liabilities acquired from ProcureNet, Inc.

ACQUISITIONS

Date Acquired	Company Acquired	Business Location	Accounting Method	Consideration Paid
July 24, 1997	Compuventures of Pitt County, Inc. (now named *e*Plus Technology of NC, inc.)	Wilmington, Greenville, and Raleigh, NC	Pooling of Interests	260,978 shares of Common Stock valued at $3,384,564
September 29, 1997	Educational Computer Concepts, Inc. (now named *e*Plus Technology of PA, inc.)	Pottstown, PA	Pooling of Interests	498,998 shares of Common Stock valued at $7,092,000
July 1, 1998	PC Plus, Inc. (now named *e*Plus Technology, inc.)	Herndon, VA	Purchase	263,478 shares of Common Stock valued at $3,622,823 and $3,622,836 in cash
October 1, 1999	CLG, Inc. (merged into *e*Plus 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
May 15, 2001	Certain assets and liabilities from ProcureNet, 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

The assets acquired from ProcureNet, Inc. on May 15, 2001 included the following e-commerce procurement software products:

OneSource™ Enterprise Procurement Software -a Web-enabled enterprise procurement software application designed to support and streamline the requisition, order approval, tracking and reporting of purchases using the Internet, e-mail, and EDI to fully automate the procurement process. The software incorporates catalog search technology, which allows key word, advanced text-based and product attribute-driven searches. The search functionality is enabled by the technology-driven content cleaning and catalog building services. The software provides functionality that can be implemented to manage the

customer's front office and back office procurement requirements. Front office functionality includes the OrderPlace™ electronic catalog containing customer specific goods, rapid requisition entry for frequent users, user hot lists, customized workflows for automating the approval cycle, budgeting, order status checking, order history, and receiving. Back office functionality includes purchase order processing, auto routing for fulfillment, reverse auction, invoice processing, Evaluated Receipts Settlement (ERS), accounts payable, foreign currency, inventory and asset management. The OneSource™ software application, which can be implemented with an integrated or hosted OrderPlace™, integrates with ePlus Market our procurement portal containing an electronic catalog with a wide range of commodities and specialty goods. OneSource™ can be integrated into a customers' ERP or legacy systems. The OneSource™ software is available over the Internet as a hosted solution using the Company's server network, or as a non-hosted solution on a customers' network. It can run on servers using Microsoft Windows NT and various UNIX operating systems, as well as leading database platforms, including Oracle, MS SQL Server, and IBM's UDB/DB2.

OneSource™ Marketbuilder™ Software -Web-marketplace building software based on the same core technology as the OneSource™ enterprise procurement software, which allows a company or group of companies to quickly and cost effectively establish an Internet-based trading community. The OneSource™ MarketBuilder™ functionality includes direct Web-browser access or access through the OneSource™ procurement application, multilevel catalog views which allow customization for various buying communities, auctions, order processing and payment, distributed administration functionality, and reporting.

OneReq™ Search Technology - OneReq™ search technology represents an approach to electronic catalog searching that reduces both requisition time and procurement errors. Utilizing a commodity-specific database, OneReq™ automatically prompts the customer to provide comprehensive product attributes. Each attribute selected from a pull-down menu acts as a progressive filter to narrow the customer's search for items that meet their specifications. If an appropriate match is not found in the customer's OrderPlace™ electronic catalog, the customer can be transferred to the *e*Plus Market catalog.

Common Language Generator Data Cleansing Technology - Common Language Generator technology is an advanced, proprietary software application for cleaning and categorizing legacy product descriptions. Using a knowledge database of over 60,000 advanced pattern-matching rules, the Common Language Generator system classifies incoming content, identifying product characteristics and then standardizing and assigning their appropriate values. The Company maintains a data cleansing staff that provides the commodity knowledge required to develop the advanced pattern matching rules, which are constantly being extended and improved. The Company's staff also provides validation and quality assurance of the data output.

The Company also obtained certain ProcureNet, Inc. accounts receivable and fixed assets and assumed liabilities relative to the maintenance of software products to customers.

OUR BUSINESS

We provide Internet-based, business-to-business supply chain management solutions for information technology and other operating resources. In November 1999 we introduced our remotely hosted electronic commerce solution, *e*PlusSuite, which combines Internet-based tools with dedicated customer

service to provide a comprehensive outsourcing solution for the automated procurement, management, financing and disposition of operating resources. On May 15, 2001 ePlus further expanded its offering

by acquiring the e-commerce procurement assets of ProcureNet, Inc. (See "Acquisitions"). These assets include an e-commerce procurement product that can be provided to customers as an internal stand-alone program or as a hosted product provided through *e*Plus.

The *e*PlusSuite product offering consists of four modules that can be operated independently or integrated to provide a full suite of services:

- Procur*e*(+) is an electronic procurement and content management solution which allows customers to automate their internal workflow procedures for the procurement of operating resources;

- Manag*e*(+) is an electronic infrastructure management solution, which provides asset management through an asset repository and tracking database;

- Financ*e*(+) facilitates automated financing and leasing solutions for assets procured through Procur*e*(+) or Manag*e*(+); and

- Servic*e*(+) provides implementation and customization services, fulfillment and asset disposition.

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, using our internal sales force and through vendor relationships, primarily to commercial customers and federal, state and local governments. We also lease and finance equipment, software, and services directly and through relationships with vendors, equipment manufacturers, and systems integrators. The introduction of *e*Plus e-commerce products reflects our continuing transition to a business-to-business electronic commerce platform. See Note 14 - SEGMENT REPORTING in the attached consolidated financial statements.

INDUSTRY BACKGROUND

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

The Internet is becoming the preferred channel for business-to-business transactions. It has fundamentally changed how companies of all sizes communicate and share information. In the intensely competitive global business environment, businesses have increasingly adopted the Internet 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, which include information technology and telecommunications equipment, office equipment and supplies, travel and entertainment, professional services and other repeat purchase items. The purchase and sale of these goods comprise a large portion of business-to-business transactions.

Many organizations still 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 ("ERP") and supply chain automation systems and software to increase their procurement efficiency for operating resources. These systems are often complex and are designed to be used 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.

Certain providers of business-to-business electronic commerce solutions have attempted to link purchasers and vendors of operating resources and services into trading communities over the Internet. Their solutions are software-based and enable development of marketplaces to operate among participants with similar systems and primarily cater to larger firms.

Opportunity for Business-to-Business Electronic Commerce and Supply Chain Management Solutions

We believe that an opportunity exists to provide Internet-based supply chain management solutions 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 our customer's preferred vendors.

Our target customers are primarily middle-market companies, with revenues between $25 million and $1 billion per year. We believe there are over 60,000 customers in our target market.

Our target customer has one or more of the following business characteristics that we believe makes *e*Plus offerings a preferred solution:

- seeks a lower cost alternative to enterprise software solutions;
- will benefit from the cost savings and efficiency gains that can be obtained from an Internet-based procurement solution;
- prefers to retain the flexibility to negotiate prices with designated vendors or buying exchanges;
- wants to lower its total cost of ownership of information technology assets by standardizing configurations and proactively managing its fixed asset base over the life of the asset; and
- seeks a comprehensive solution for its entire asset management supply chain.

THE *e*Plus SOLUTION

We 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. The *e*Plus offering currently includes Internet-based applications for the procurement 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' companies more efficient, while providing better information to management.

*e*Plus 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 with either an in-house basis or 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 less customer training than many competing solutions.

STRATEGY

Our goal is to become a leading provider of Internet-based supply chain management solutions. The key elements of our strategy include the following:

Convert our existing customer base into users of ePlusSuite

We have an existing client base of approximately 1,500 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 Internet-based supply chain 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 purchased and hosted internally by the customer.

Expand our sales force and marketing activities

We currently have approximately 117 people in our sales function, and we plan to substantially increase the number of salespersons and locations in the next 12 months. We intend to expand our presence in locations that have a high concentration of fast growing middle market companies. In addition, we plan to add sales staff to some of our existing offices. We will seek to hire experienced personnel with established customer relationships and with backgrounds in hardware and software sales, telecommunications 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 *e*PlusSuite offerings.

Expand the functionality of our Internet-based solutions

We intend to continue to improve our *e*PlusSuite offering to expand its functionality to serve customer needs. In addition, we intend to use the flexibility of our platform to offer additional products and services through *e*PlusSuite. As part of this strategy, we may also acquire technology companies to expand and enhance the platform of *e*PlusSuite to provide additional functionality and value added services.

Expand our strategic relationships to market and enhance ePlusSuite

We intend to expand and develop strategic relationships to accelerate market acceptance of our electronic commerce business solutions. We believe these strategic relationships will allow us to access a wider customer base and expand the functionality of *e*PlusSuite. We have entered into joint marketing arrangements with the finance subsidiaries of Chase Manhattan, Inc. and Wachovia Corporation that enable us to market *e*PlusSuite to their customers. We also will be seeking to expand our offerings through joint venture or reseller arrangements to suppliers that can better cover the marketplace within their specific geographic locales. We believe these marketing relationships can be a potential substantial source of growth.

Increase our role as intermediary in sales and financing transactions

Over time, we plan to use our *e*PlusSuite platform to facilitate sales and financing transactions between our customers and third parties, rather than originate these transactions as principal. We currently buy and sell information technology assets and provide financing directly to our customers. We believe we can leverage our financing expertise and relationships to arrange programs with specific institutions to provide financing directly to our electronic commerce customers.

DESCRIPTION OF *e*PlusSuite

*e*PlusSuite consists of four services, Procur*e*(+), Manag*e*(+), Financ*e*(+) and Servic*e*(+). These components are fully integrated in that each component links with and shares information with the other components. Procur*e*(+) and Manag*e*(+) are remotely-hosted electronic commerce solutions, and Financ*e*(+) and Servic*e*(+) are services provided by us.

Procure(+). Procur*e*(+) offers 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, Manag*e*(+). Procur*e*(+) is available as a stand alone license or as a remotely hosted solution.

Procur*e*(+) 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. Multiple business rules can be used, and the customer or *e*Plus can make changes. Approval thresholds and routing rules can be set by dollar amount, quantity, asset type or other criteria. No coding or expensive programming is required at the customer level.

- 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 Procur*e*(+) 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 of consultants;

- 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.

Manage(+). Manag*e*(+) 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 Procur*e*(+) or from other sources populate the Manag*e*(+) database to provide a seamless link. Manag*e*(+) is a remotely hosted solution. Its core technology is based on Sybase's Enterprise Application Server and CORBA (common object request broker architecture) and JAVA script.

Manag*e*(+) 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 Manag*e*(+) 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 assists with application rollouts and the annual budgeting process.

Finance(+). Financ*e*(+) is a service that facilitates the financing of purchases on terms previously negotiated by a customer with a financing provider while automating the accumulation of data to assist in the financing process.

Financ*e*(+) allows customers to order equipment when desired and aggregate a substantial number of orders onto one or more 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 if so desired by the customer. Financ*e*(+) can help a customer simplify the process, lower costs and increase productivity.

We can 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.

Servic*e*(+) is our technology business unit that provides implementation and customization services for the rapid implementation of *e*PlusSuite, as well as fulfillment and asset disposition services. Servic*e*(+) allows customers to obtain high-quality services that can be seamlessly linked with other components of our *e*PlusSuite solution. Assets that are procured through Procur*e*(+) can be configured, imaged, staged, and

installed by us on the customer site. Our services also assist our customers in managing their existing information technology asset base, including maintenance, engineering, and other technology services.

IMPLEMENTATION AND CUSTOMER SERVICE

We use a project management approach to the implementation of *e*PlusSuite with each new *e*PlusSuite customer. Our team consists of *e*PlusSuite 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 Servic*e*(+) staff members to provide technology services, if required, to the customer.

Our implementation of *e*PlusSuite is a multi-step process that requires, on average, approximately four weeks and involves the following steps:

- We conduct an operational audit to understand the customer's business processes across multiple departments, existing ERP 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 supply chain management system which can include: customer workflow processes and business rules using our graphical route-builder, custom catalogs linking to chosen vendors, including *e*Plus, custom reporting and querying, and data capture parameters for the Manag*e*(+) asset repository.

- We beta test the site and train the customer's personnel .

We provide *e*PlusSuite 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 *e*Plus personnel who have experience and expertise with the customer's specific business processes and requirements.

TECHNOLOGY

General. Our Procur*e*(+) and Manag*e*(+) applications are fully standards-based, designed for the Internet and built upon an underlying architecture that is based on the Microsoft and Sybase distributed Internet 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 provided 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 Procur*e*(+) 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. Manag*e*(+) 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. New functionality can also be assigned to existing controls, or new controls, with little application modification and minimal programming.

*e*PlusSuite can be integrated with external systems such as ERP 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 *e*PlusSuite and other enterprise systems. These integration processes can be scheduled according to the needs of our customer's information services and finance departments.

Data Accuracy. Data input from internal departments is quality controlled within the entering department before it is released for use to other functions. Customer input is also quality controlled before it is released for use to other functions.

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

To date, the majority of our software has been acquired from third-party vendors and some development has been outsourced to third-party software companies. 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 the internal software development will be handled within the company. We both 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 *e*PlusSuite. 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 investing significant resources in our internal development efforts, including adding a significant number of in-house software engineers, and management. In addition, to complement our in-house development efforts, we expect significant future expenditures on software licenses and third-party software development and consulting costs.

SALES AND MARKETING

We focus our marketing efforts on achieving brand recognition, market awareness, lead generation, and converting our existing customer base to our *e*PlusSuite solution. The target market for our *e*PlusSuite is primarily middle market companies with revenues between $25 million and $1 billion. We believe there are over 60,000 customers in our target market. Our sales representatives are paid on a salary plus commission basis, with specific incentives for generating new *e*PlusSuite customers and revenues.

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. As part of our strategy to grow our electronic commerce business, we intend to hire additional sales personnel and open new sales locations. We also intend to develop strategic relationships to expand market acceptance of our electronic commerce business solutions.

Our sales force is organized under four regional directors located in our headquarters in Herndon, Virginia (2) and our Pottstown, Pennsylvania (1) and Raleigh, North Carolina (1) regional operating centers. We have various sales office locations in: Herndon, Virginia; Phoenix, Arizona; St. Louis, Missouri; Morristown, New Jersey; Dallas, Texas; San Diego, Milpitas and Sacramento, California; Greenville, Wilmington, Charlotte and Raleigh, North Carolina; and Pottstown, Camp Hill and West Chester, Pennsylvania. Additionally, sales offices in Avon, Connecticut and Houston, Texas were acquired as part of the purchase of certain assets from ProcureNet, Inc. on May 15, 2001. As of June 17, 2001 our sales organization included 117 total direct 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 *e*PlusSuite. Some of these agreements grant us a perpetual license to the source code or gives us the right to obtain such a license upon payment of an additional fee. Each of these licenses is nonexclusive. The agreements permit us to modify the software source code in conjunction with normal use or upon payment of an additional fee. Generally, the agreements provide that any software developed to interface with licensed software is our property if such work is based on our proprietary information. The licensing agreements provide the payment of initial and on-going fees. In addition, certain of our licensing agreements provide for additional fees based on

transaction volume. If we commit a material breach of any one of the agreements, it may be terminated. These agreements do not provide any indemnification for intellectual property infringement. 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 no patents, although we have filed applications in the U.S. Patent and Trademark Office to register the service marks *e*Plus, *e*PlusSuite, Procur*e*(+), Manag*e*(+), Financ*e*(+), Servic*e*(+), EPLUS LEASING, EPLUS ONLINE and EPLUS ADVANTAGE. The applications for EPLUS LEASING, EPLUS ONLINE and EPLUS ADVANTAGE are currently based on intent-to-use. The grant of registrations for these intent-to-use marks is conditioned upon each mark being used in commerce, assuming the mark is found to be allowable. The registration on Financ*e*(+) has been issued; the applications on Procur*e*(+) and Manag*e*(+) have been published, and registration is expected in September, 2001, if no opposition is filed; and the applications on EPLUS LEASING and Servic*e*(+) have been approved for publication. We also may file provisional patent applications with the U.S. Patent and Trademark Office relating to various features and processes embodied in our applications. A provisional patent application is a type of application under which a patent will not be issued, but which provides a priority date for a regular patent application that is filed within a one-year period following the filing of the provisional patent application. We cannot assure that any regular patents will be filed based on our provisional applications, or that any patents will be issued on our pending provisional applications from any such regular applications. Further, we cannot provide any assurance that any patents, if 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.

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, and managing information technology and other assets for over ten years and currently derive the majority of our revenues from such activities. Over time, we plan to use our *e*PlusSuite platform to facilitate sales and financing transactions between our customers and third parties rather than originate these transactions as principal. 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 *e*PlusSuite 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, not-for-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 regardless of any lessee dissatisfaction with its equipment. 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.

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. 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, distributors, resellers, content management solution providers and sourcing organizations. Our largest vendor relationships include Ingram Micro, Inc., Compaq, Tech Data, Hewlett Packard, Dell Computer Corporation, Microsoft Corporation, and Sun Microsystems, Inc. We have in excess of 150 vendor authorizations to market specific products. We expect the number of vendor relationships to grow significantly as we expand Procur*e*(+) beyond its traditional information technology and telecommunications products. Our flexible platform and customizable catalogs facilitate the addition of new vendors with little incremental effort. Our reseller product transactions have varying sales on account terms from net 45 days to collect on delivery, depending on the customer's credit and payment term 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 regional commercial banks, money-center banks, finance companies, insurance companies and financial intermediaries with varying terms and conditions. During the years ended March 31, 1999, 2000, and 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 42%, 11% and 5% of the Company's revenues, respectively. 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 our on-balance sheet financial asset risk. 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 for which we try to obtain lender commitments before asset origination. We have over 35 non-recourse financing sources that we use, including GE Capital Corporation, Key Corporate Capital, Inc., Fleet Business Credit Corporation, Fifth Third Bank, and Citizens Banking

Corporation.

Whenever possible and desirable we manage our risk in assets by selling leased assets, including the residual portion of leases, to third-parties rather than maintaining them on our balance sheet. We try to obtain commitments for these asset sales before asset origination in a financing transaction. We have sold assets in the current year to GE Capital Corporation, Heller Financial, Fleet Business Credit Corporation, and in prior years to Firstar Equipment Finance Company and John Hancock Leasing Corp., among others. 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 leases and sales contracts are reviewed by senior management for pricing, structure, documentation and credit quality. Due in part to our strategy of focusing on a few 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, 2001, we reserved for $1,989,245 in credit losses and incurred actual credit losses of $368,612. During the fiscal year ended March 31, 2000 we reserved for $732,839 in credit losses and incurred actual credit losses of $533,031.

COMPETITION

The market for our electronic commerce products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. Our primary source of direct competition comes from independent software vendors of procurement applications. 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.

Our current and potential competitors in the electronic commerce market include, among others, Ariba, Inc., Commerce One, Inc., Clarus Corporation, International Business Machines Corporation, and General Electric. In addition, there are a number of companies developing and marketing business-to-business electronic commerce solutions targeted at specific vertical markets. Some of these competitors offer Internet-based solutions that are designed to enable an enterprise to buy more effectively from its suppliers. Other competitors are also attempting to migrate their technologies to an Internet-enabled platform. Some of these competitors and potential competitors include ERP vendors, which are expected to sell their procurement products along with their application suites. These ERP 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 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 compete favorably with our competitors in these areas.

In addition, we expect to continue to compete in the information technology and telecommunications equipment leasing and financing market. We compete directly with various leasing companies such as GE Capital Corporation and bank leasing subsidiaries as well as captive finance companies such as IBM Credit Corporation. 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.

EMPLOYEES

As of March 31, 2001 we employed 409 full-time and part-time employees who operated through 16 offices, including our principal executive offices and regional sales offices. We also have employees in 4 locations based from their residences. 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:

	Number of Employees
Sales and Marketing	111
Technical Support	99
Contractual	57
Accounting and Finance	51
Administrative	60
Software and Development	17
Executive	14

On May 15, 2001, as part of the acquisition from ProcureNet, Inc., approximately 39 permanent sales and IT development employees joined our company as well as 10 data input specialists who are temporarily retained. Including the employees from ProcureNet, Inc., our employee total would have been as follows:

	Number of Employees
Sales and Marketing	117
Technical Support	99
Contractual	57
Accounting and Finance	51
Administrative	61
Software and Development	47
Executive	16
Data Input Temporaries	10

RISK FACTORS

The Limited Operating History Of Our ePlusSuite Business Makes It Difficult To Evaluate Our Business And Our Prospects

Our *e*PlusSuite solution, introduced on November 2, 1999, has an extremely 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 *e*PlusSuite services;
- adapt to meet changes in our markets and competitive developments;
- hire sufficient sales and technical personnel to accommodate the expected growth in our customer base which may negatively impact our profitability; 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 underdeveloped. 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.

Our current and potential competitors in the market include, among others, Ariba, Inc., Commerce One, Inc., Clarus Corporation, Concur Technologies, Inc., Connect, Inc., Harbinger Corporation, i2 Technologies, Inc., International Business Machines Corporation, Intellisys Group, Inc., Microsoft Corporation, Netscape Communications Corporation, Oracle Corporation, PeopleSoft, Inc. and SAP Corporation Systems. 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. In addition, our customers may become competitors 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 known errors considered minor by us might 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 need to substantially expand our sales operations and marketing efforts. These products and services require a sophisticated sales effort and significant technical support. Hiring technical personnel and finding third-party technical support is very competitive in the electronic commerce market due to the limited number of people available with the necessary technical skills and understanding of the Internet. Competition for qualified sales, marketing and technical personnel is intense, and we might not be able to hire and retain sufficient numbers of such personnel to grow our electronic commerce 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 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 *e*PlusSuite 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. Failure to find alternative purchasers of our leased equipment may 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 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. Residual values are determined and approved by our investment committee. 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.

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 reductions in realized residual values, lower sales of equipment and lower overall leasing activity. In the event our revenues or earnings are less than the level expected by securities analysts or the market in general, such shortfall could have an immediate and significant adverse impact on 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; Kleyton L. Parkhurst, Senior Vice President, Secretary and Treasurer; Vincent Marino, President of ePlus Technology of PA, inc.; David Rose, President of ePlus Technology of NC, inc.; and Nadim Achi, President of ePlus Technology, inc. 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 entered into an employment agreement with us. We maintain key-man life insurance only on Mr. Norton.

ITEM 2. PROPERTIES

The Company operates from sixteen leased offices, of which three have warehouse space on site and one remote warehouse site. Some sales and service personnel operate from residential offices or space that is provided for by another entity. Our total leased square footage is approximately 78,965 square feet and we pay rental of approximately $114,500 per month. Some of our companies share office space to improve consolidated corporate marketing of our products and to provide better cost efficiency. We do not own any real estate.

Location	Company	Number of Employees	Approximate Square Footage	Function

Herndon, VA	*e*Plus Group	142	10,053	Corporate headquarters and sales-shared
Raleigh, NC	*e*Plus Group	12	8,000	Sales
Sacramento, CA	*e*Plus Group	3	954	Sales
West Chester, PA	*e*Plus Group	3	635	Sales
Dallas, TX	*e*Plus Group	2	943	Sales
Columbia, MD	*e*Plus Group	1	100	Sales
St. Louis, MO	*e*Plus Group	1	150	Sales
Morristown, NJ	*e*Plus Group	1	100	Sales
Milpitas, CA	*e*Plus Group	1	100	Sales
Other locations	*e*Plus Group	4		Sales – home based
Herndon, VA	ePlus Government	11	1,400	Corporate headquarters - shared
Wilmington, NC	*e*Plus Technology of NC, inc.	52	4,460	Subsidiary headquarters, sales office and warehouse
Greenville, NC	*e*Plus Technology of NC, inc.	10	6,119	Sales office and warehouse
Charlotte, NC	*e*Plus Technology of NC, inc.	4	2185	Sales office-shared
Pottstown, PA	*e*Plus Technology of PA, inc.	70	17,000	Subsidiary headquarters, sales office and warehouse
Camp Hill, PA	*e*Plus Technology of PA, inc	5	1,174	Sales office
Herndon, VA	*e*Plus Technology, inc.	86	13,245	Subsidiary headquarters-shared, annex location and warehouse
Herndon, VA	*e*Plus Technology, inc.		1,616	Storage warehouse
Avon, CT	*e*Plus Systems, inc.	14	5,030	Subsidiary headquarters, sales and technical development
Great River, NY	*e*Plus Systems, inc.	4		Sales
Raleigh , NC	*e*Plus Systems, inc.	2		Sales and service
Other Locations	*e*Plus Systems, inc	3		Sales and service
Houston, TX	*e*Plus Content Services, inc.	26	4,000	Subsidiary headquarters, sales and e-commerce

catalog service center

*e*Plus inc., *e*Plus Group, inc., *e*Plus Government and *e*Plus Technology, inc. share space in the same building in Herndon, VA. The two largest locations are Herndon, VA and Pottstown, PA that have lease expiration dates of November 30, 2004 and June 30, 2005 respectively.

ITEM 3. LEGAL PROCEEDINGS

The Company is not aware of any pending or threatened legal proceedings that would have a material adverse effect upon the Company's business, financial condition, results of operations or cash flows.

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

Since November 1, 1999, the Company's Common Stock has traded on the Nasdaq National Market under the symbol "PLUS." Previously, the Company's Common Stock was traded on the Nasdaq National Market from November 20, 1996 to October 31, 1999 under the symbol "MLCH." The following table sets forth the range of high and low sale prices for the Common Stock for the period April 1, 1999 through March 31, 2001, by quarter.

Quarter Ended	High	Low
June 30, 1999	$ 9.50	$7.50
September 30, 1999	$11.25	$7.00
December 31, 1999	$46.00	$8.75
March 31, 2000	$74.63	$27.13
June 30, 2000	$37.12	$12.50
September 30, 2000	$30.50	$14.62
December 31, 2000	$23.62	$7.28
March 31, 2001	$17.75	$7.37

On June 20, 2001 the closing price of the Common Stock was $9.00 per share. On June 20, 2001, there were 184 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 be able to pay dividends. Our National City Bank Facility restricts dividends to 50% of net income accumulated after September 30, 2000. Therefore, the payment of cash dividends on the 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.

RECENT SALES OF UNREGISTERED SECURITIES

On September 30, 1999, the Company acquired all of the outstanding stock of CLG, Inc., a wholly-owned subsidiary of Centura Bank. Total consideration for the acquisition was $36.5 million, including $29.5 million in cash, a subordinated note in the amount of $3.1 million and 392,990 shares of the Company's Common Stock.

On April 11, 2000, the Company issued to TC Plus, LLC 709,956 shares of Common Stock upon the cashless exercise by TC Plus, LLC of a stock purchase warrant for 1,090,909 shares, with an exercise price of $11.00 per share. The cashless exercise was made based on the closing price of the Company's Common Stock on April 11, 2000.

On May 15, 2001, the Company issued 422,833 shares of Common Stock as part of the consideration for the acquisition of certain assets and liabilities of ProcureNet, Inc. The remaining consideration was the payment of $1,000,000 of cash and the assumption of certain liabilities.

The issuances of securities described above were made in reliance on exemptions from registration provided by Section 4(2) or Regulation D of the Securities Act of 1933, as amended, as issuances by the issuer not involving a public offering. The entities receiving securities from us in the transactions described above represented their intention to acquire the securities for investment only and not with a view to or for distribution in connection with such transactions and appropriate legends were affixed to the share certificates issued in such transactions. All recipients had adequate access to information about the Company, through their relationships with the Company or through information about the Company made available to them.

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, 1999, 2000 and 2001" and "Item 1, Business."

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

	Year Ended March 31,				
	1997	**1998**	**1999**	**2000**	**2001**
CONSOLIDATED STATEMENTS OF EARNINGS					
Revenues:					
Sales of equipment	$ 52,167	$ 47,419	$ 83,516	166,252	$ 216,183
Sales of leased equipment	21,634	50,362	84,379	57,360	34,031
Lease revenues	9,909	14,882	20,611	31,374	42,694
Fee and other income	2,503	5,779	5,464	8,371	7,993
ePlusSuite revenues	-	-	-	1,376	5,685
Total revenues	86,213	118,442	193,970	264,733	306,586
Costs and Expenses:					
Cost of sales of equipment	42,180	37,423	71,367	147,209	182,474
Cost of sales of leased equipment	21,667	49,669	83,269	55,454	33,329
Direct lease costs	4,761	5,409	6,184	8,025	16,535
Professional and other costs	577	1,073	1,222	2,126	3,363
Salaries and benefits	8,241	10,357	11,880	19,189	30,611
General and administrative expenses	2,286	3,694	5,152	7,090	10,766
Interest and financing costs	1,649	1,837	3,601	11,390	15,523
Nonrecurring acquisition costs	-	250	-	-	-
Total costs and expenses	81,361	109,712	182,675	250,483	292,601
Earnings before provision for income taxes	4,852	8,730	11,295	14,250	13,985
Provision for income taxes	1,360	2,691	4,579	5,875	5,667
Net earnings	$ 3,492	$ 6,039	$ 6,716	$ 8,375	$ 8,318
Net earnings per common share - Basic	$ 0.67	$ 1.00	$ 0.99	$ 1.09	$ 0.86
Pro forma net earnings (1)	$ 3,133	$ 5,426			
Pro forma net earnings per common share - Basic	$ 0.60	$ 0.90			
Weighted average shares outstanding - Basic	5,184,261	6,031,085	6,769,732	7,698,287	9,625,891

(1) Pro forma net earnings for the years ended March 31, 1997 and 1998 as if companies which were subchapter S corporations prior to their business combination with the Company, which were accounted for under the pooling of interests method in fiscal 1998, had been subject to federal income tax throughout the periods presented.

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

	As of March 31,				
	1997	1998	1999	2000	2001
CONSOLIDATED BALANCE SHEETS					
Assets:					
Cash and cash equivalents	$ 6,654	$ 18,684	$ 7,892	$ 21,910	$ 24,534
Accounts receivable	8,846	16,383	44,090	60,167	57,627
Notes receivable	2,154	3,802	547	1,195	1,862
Inventories	1,278	1,214	658	2,445	2,651
Investment in direct financing and sales type leases, net	17,473	32,496	83,371	221,885	198,563
Investment in operating lease equipment, net	11,065	7,296	3,530	10,114	4,283
Other assets	741	2,137	12,357	24,628	15,754
All other assets	813	1,184	1,914	2,991	5,593
Total assets	$ 49,024	$ 83,196	$ 154,359	$ 345,335	$ 310,867
Liabilities:					
Accounts payable - equipment	$ 4,946	$ 21,284	$ 18,049	$ 22,976	$ 9,227
Accounts payable - trade	3,007	6,865	12,518	29,452	18,926
Salaries and commissions payable	672	390	536	957	1,293
Recourse notes payable	439	13,037	19,081	39,017	8,876
Nonrecourse notes payable	19,705	13,028	52,429	182,845	157,960
All other liabilities	3,778	5,048	7,932	12,967	22,678
Total liabilities	32,547	59,652	110,545	288,214	218,960
Stockholders' equity	16,477	23,544	43,814	57,121	91,907
Total liabilities and stockholders' equity	$ 49,024	$ 83,196	$ 154,359	$ 345,335	$ 310,867

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, 1999, 2000 AND 2001

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.

In November 1999, we introduced *e*PlusSuite, a comprehensive business-to-business electronic commerce supply chain management solution for information technology and other operating resources. We currently derive the majority of our revenue from sales and financing of information technology and other assets. The introduction of *e*PlusSuite reflects our transition to a business-to-business electronic commerce solutions provider from our historical sales and financing business. Our strategy is to reduce or eliminate our balance sheet risk over time by outsourcing lease and other financing to third-party financial institutions, while charging a transaction fee and arranging the sales of information technology and other assets for a transaction fee, rather than purchasing and reselling such assets ourselves.

We expect our electronic commerce revenues to be derived primarily from (1) amounts charged to customers with respect to procurement activity executed through Procur*e*(+), (2) fees from third-party financing sources that provide leasing and other financing for transactions that we arrange through Procur*e*(+) on behalf of our customers, (3) fees from third-party vendors for sales in transactions that we arrange through Procur*e*(+) on behalf of our customers and (4) amounts charged to customers for the Manag*e*(+) service. We expect to generate increased revenues from our electronic commerce business unit, while revenues from our leasing and sales business may decrease over time. Because revenues for the sale of leased and other equipment include the full purchase price of the item sold, total revenues may decline to the extent leasing and sales revenues begin to represent a smaller portion of our total revenues. However, in the near term, as we seek to implement our electronic commerce business strategy, we will continue to derive most of our revenues from our traditional businesses.

We expect to incur substantial increases in the near term in our sales and marketing, research and development, and general and administrative expenses. In particular, we expect to significantly expand the marketing of our electronic commerce business solution and increase spending on advertising and marketing. To implement this strategy, we plan to hire additional sales personnel, open new sales locations and hire additional staff for advertising, marketing and public relations. We also plan to hire additional technical personnel and third parties to assist in the implementation and upgrade of *e*PlusSuite and to develop complementary electronic commerce business solutions. As a result of these increases in expenses, we expect to incur significant losses in our *e*PlusSuite business that may, in the near term, have a material adverse effect on operating results for the Company as a whole.

To the extent the Company successfully implements this strategy, it expects the business to become less capital intensive over time. As a result, management expects total assets and total liabilities to decrease. The Company expects to significantly reduce its receivables and lease assets along with the associated liabilities including debt and equipment payables.

The Company has added new classifications to its financial statement presentation in order to reflect the changes in its business. A line item, *e*PlusSuite revenues, has been added to the statement of earnings that includes the revenues associated with the e-commerce business unit. A new business segment, e-commerce, has been added for segment reporting purposes to present separately e-commerce business unit revenues. 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 will substantially increase our expenses in the near term 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. We also expect that the results of adding these offerings may cause management to redefine the internal business reporting process and impact the segment reporting in the first quarter of the next fiscal year which will end March 31, 2002.

As a result of the foregoing, the Company's historical results of operations and financial position may not be indicative of its future performance over time. However, the Company's results of operations and financial position will continue to primarily reflect its traditional sales and financing businesses for at least the next year.

SELECTED ACCOUNTING POLICIES

Amounts charged for the e-commerce business unit's Procur*e*+ service are recognized as services are rendered. Amounts charged for the Manag*e*+ service are recognized on a straight-line basis over the period the services are to be provided.

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 significant to our business are discussed below.

We classify our lease transactions, as required by the Statement of Financial Accounting Standards No. 13, Accounting for Leases, or FASB No. 13, 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 finance leases are recorded as investment in direct financing leases upon acceptance of the equipment by the customer. At the inception 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 sold through our technology 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 as part of 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 operating 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 recorded in 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 recorded in 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 FASB No. 13. Residual values are affected by equipment supply and demand and by new product announcements and price changes 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 the secondary market; or (3) lease of the equipment to a new user. 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. The proceeds from any subsequent lease are accounted for as lease revenues at the time such transaction is entered into.

Initial Direct Costs. Initial direct costs related to the origination of direct financing, sales-type 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. Sales revenue 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 equipment subject to an existing lease, under which we are lessor, including any underlying financing related to the lease; and (3) sales of off-lease equipment to the secondary market.

Other Sources of Revenue. Amounts charged for the electronic commerce business unit's Procur*e*(+) service are recognized as services are rendered. Amounts charged for the Manag*e*(+) service are recognized on a straight-line basis over the period the services are provided. These revenues are included

in our *e*PlusSuite revenues in our consolidated statement of earnings.

Fee and other income results from (1) income from events that occur after the initial sale of a financial asset such as escrow/prepayment income, (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.

RESULTS OF OPERATIONS

The Year Ended March 31, 2001 Compared to the Year Ended March 31, 2000

Total revenues generated by the Company during the year ended March 31, 2001 were $306.6 million compared to revenues of $264.7 million for the year ended March 31, 2000, an increase of 15.8%. This increase is primarily attributable to increases in equipment sales and lease revenues. The Company's revenues are composed of sales, lease revenues, *e*PlusSuite revenues, and fee and other revenue, and may vary considerably from period to period.

Sales revenue, which includes sales of equipment and sales of leased equipment, increased 11.9% to $250.2 million during the year ended March 31, 2001, as compared to $223.6 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, 2001, equipment sales through the Company's technology business unit subsidiaries accounted for 99.6% of sales of equipment. For the year ended March 31, 2001, sales of equipment increased 30.0% to $216.2 million, a result of increased technology sales through the Company's subsidiaries. The acquisition of CLG, Inc. in September, 1999 did not materially contribute to the increase in sales of equipment for the periods presented.

The Company realized a gross margin on sales of equipment of 15.6% for the year ended March 31, 2001, as compared to 11.5% during the year ended March 31, 2000. This increase in net margin percentage can be attributed to improved vendor pricing negotiations and variations in the mix and volume of products sold.

The Company also recognizes revenue from the sale of leased equipment. During the year ended March 31, 2001 compared to the prior fiscal year, sales of leased equipment decreased 40.7% to $34.0 million. 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. The decrease in sales of leased equipment can be primarily attributed to the decline in the volume of leases sold to MLC/CLC, LLC, a joint venture in which the Company owns a 5% interest. During the years ended March 31, 2001 and 2000, sales to MLC/CLC, LLC, accounted for 43.1% and 50.0% of sales of leased equipment, respectively. Sales to the joint venture require the consent of the joint venture partner. Firstar Equipment Finance Corporation, which owns 95% of MLC/CLC, LLC, discontinued their continued 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.

During the year ended March 31, 2001, the Company recognized a gross margin of 2.1% on leased equipment sales of $34.0 million as compared to a gross margin of 3.3% on leased equipment sales of $57.4 million during the prior fiscal year.

The Company’s lease revenues increased 36.1% to $42.7 million for the year ended March 31, 2001, compared with the prior fiscal year. This increase consists of increased lease earnings and rental revenues, as well as increased remarketing revenues.

For the year ended March 31, 2001, fee and other income decreased 4.5% over the prior fiscal year. Included in the Company’s fee and other income are 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, 2001, the Company recorded $5.7 million in *e*PlusSuite revenues, as compared to $1.4 million in the year ended March 31, 2000. This represents an increase of 313.2%. These revenues consist of amounts charged for the arrangement of procurement transactions executed through Procur*e*+, and Manag*e*+, components of *e*PlusSuite.

The Company’s direct lease costs increased 106.0% during the year ended March 31, 2001, as compared to the prior fiscal year. The largest component of direct lease costs is depreciation expense on operating lease equipment. The acquisition of CLG, Inc., which had a higher percentage of operating leases, contributed to the increase, as did increases in the Company's reserves for credit losses.

Salaries and benefits expenses increased 59.5% during the year ended March 31, 2001, as compared to the prior fiscal year. General and administrative expenses increased 51.9% over the prior fiscal year. These increases reflect the increased number of personnel employed by the Company, higher commission expenses in the technology business unit, and increased costs associated with the implementation of the Company's strategies, as well as the acquisition of CLG, Inc.

Interest and financing costs incurred by the Company for the year ended March 31, 2001 increased 36.3%, and relate to interest costs on the Company’s indebtedness. In addition to increased borrowing under the Company's lines of credit, the Company's lease related non-recourse debt portfolio increased significantly (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 decreased to $5.7 million for the year ended March 31, 2001 from $5.9 million for the prior fiscal year, reflecting effective income tax rates of 40.5% and 41.2%, respectively.

The foregoing resulted in a 0.7% decrease in net earnings for the year ended March 31, 2001, as compared to the prior fiscal year.

Basic and fully diluted earnings per common share were $0.86 and $0.80 for the year ended March 31, 2001, as compared to $1.09 and $0.91 for the year ended March 31, 2000, based on weighted average common shares outstanding of 9,625,891 and 10,383,467, respectively, for 2001 and 7,698,287 and 9,155,056, respectively, for 2000.

The Year Ended March 31, 2000 Compared to the Year Ended March 31, 1999

Total revenues generated by the Company during the year ended March 31, 2000 were $264.7 million compared to revenues of $194.0 million for the year ended March 31, 1999, an increase of 36.5%. This increase is primarily attributable to an increase in equipment sales. The increase in total revenues for the year ended March 31, 2000, without the inclusion of the operations of CLG, Inc., would have been 31.1%.

Sales revenue, which includes sales of equipment and sales of leased equipment, increased 33.2% to $223.6 million during the year ended March 31, 2000, as compared to $167.9 million in the prior fiscal year.

For the year ended March 31, 2000, equipment sales through the Company's technology business unit subsidiaries accounted for 98.1% of sales of equipment, with the remainder being sales from brokerage and re-marketing activities. Sales of equipment increased significantly during the year ended March 31, 2000, primarily a result of increased technology sales through the Company's subsidiaries. For the year ended March 31, 2000, sales of equipment increased 99.1% to $166.3 million. The acquisition of CLG, Inc. in September, 1999, did not materially contribute to the increase in sales of equipment for the periods presented.

The Company realized a gross margin on sales of equipment of 11.5% for the year ended March 31, 2000, as compared to a gross margin of 14.5% realized on sales of equipment generated during the year ended March 31, 1999. This decrease in net margin percentage can be primarily attributed to increased sales to larger volume customers who are more price competitive. The Company’s gross margin on sales of equipment may be affected by the mix and volume of products sold.

During the year ended March 31, 2000 compared to the prior fiscal year, sales of leased equipment decreased 32% to $57.4 million. The decrease in sales of leased equipment can be primarily attributed to the decline in the volume of leases sold to MLC/CLC, LLC. During the years ended March 31, 2000 and 1999, sales to MLC/CLC, LLC, accounted for 50% and 96.1% of sales of leased equipment, respectively.

During the year ended March 31, 2000, the Company recognized a gross margin of 3.3% on leased equipment sales of $57.4 million as compared to a gross margin of 1.3% on leased equipment sales of $84.4 million during the prior fiscal year. The increase in gross margin is due primarily to increased origination fees charged to the equity purchasers of leased equipment.

The Company’s lease revenues increased 52.2% to $31.4 million for the year ended March 31, 2000, compared with the prior fiscal year. This increase consists of increased lease earnings and rental revenues reflecting a higher average investment in direct financing and sales-type leases. The investment in direct financing and sales-type leases at March 31, 2000 and March 31, 1999 were $221.9 million and $83.4 million, respectively. The March 31, 2000 balance represents an increase of $138.5 million or 166.1% over the balance as of March 31, 1999. The increase in the net investment in direct financing and sales-type leases, as well as the corresponding lease revenues, was due in large part to the acquisition of CLG, Inc. The increases in lease revenues for the year ended March 31, 2000, without the operations of CLG, Inc., would have been 14.5%.

For the year ended March 31, 2000, fee and other income increased 53.2% over the prior fiscal year. This increase is attributable to increases in revenues from adjunct services and fees, including broker fees, support fees, warranty reimbursements, and learning center revenues generated by the Company’s technology business unit subsidiaries. Included in the Company’s fee and other income are 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 consumate 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 acquisition of CLG, Inc. did not materially affect the increases for the periods presented.

For the year ended March 31, 2000, the Company recorded $1.4 million in *e*PlusSuite revenues. These revenues consisted of amounts charged for the arrangement of procurement transactions executed through Procur*e*+, and Manag*e*+, components of *e*PlusSuite. There were no *e*PlusSuite revenues recorded in the fiscal year ended March 31, 1999, as *e*PlusSuite was introduced on November 2, 1999. During the year ended March 31, 2000, the selling, general and administrative expenses allocated to the e-commerce busines unit consisted primarily of a corporate overhead allocation.

The Company's direct lease costs increased 29.8% during the year ended March 31, 2000, as compared to the prior fiscal year. The largest component of direct lease costs is depreciation expense on operating lease equipment. The increase for the year ended March 31, 2000 is attributable to the acquisition of CLG, Inc., which has a higher percentage of operating leases, and as a result, added $3.4 million in direct lease costs.

Salaries and benefits expenses increased 61.5% during the year ended March 31, 2000 over the same period in the prior year. These increases reflect the increased number of personnel employed by the Company, higher commission expenses in the technology business unit, and the acquisition of CLG, Inc.

Interest and financing costs incurred by the Company for the year ended March 31, 2000 increased 216.3%, and relate to interest costs on the Company's indebtedness. In addition to increased borrowing under the Company's lines of credit, the Company's lease related non-recourse debt portfolio increased significantly (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 $5.9 million for the year ended March 31, 2000 from $4.6 million for the prior fiscal year, reflecting effective income tax rates of 41.2% and 40.5%, respectively.

The foregoing resulted in a 24.7% increase in net earnings for the year ended March 31, 2000, as compared to the prior fiscal year.

Basic and fully diluted earnings per common share were $1.09 and $0.91 for the year ended March 31, 2000, as compared to $0.99 and $0.98 for both methods for the year ended March 31, 1999, based on weighted average common shares outstanding of 7,698,287 and 9,155,056, for 2000 and 6,769,732 and 6,827,528, respectively, for 1999.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended March 31, 2001, the Company generated cash flows from operations of $10.2 million, and used cash flows from investing activities of $18.6 million. Cash flows generated by financing activities amounted to $11.0 million during the same period. The net effect of these cash flows was a net increase in cash and cash equivalents of $2.6 million during the year. During the same period, our total

assets decreased $34.5 million, or 10.0%, primarily the result of decreases in the Company's net investment in direct financing and operating leases. 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 decreased $23.3 million, or 10.5%, and $5.8 million, or 57.7%, respectively, during the period. The cash balance at March 31, 2001 was $24.5 million as compared to $21.9 million the prior year.

Working capital financing in our leasing business was, through December 16, 2000 when it expired, provided by a $65 million committed credit facility which was a short-term, secured, recourse facility provided through First Union National Bank, N.A. and which had syndicated the facility to the following participants and in the following amounts: National City Bank ($15 million); Summit Bank ($10 million); Bank Leumi USA ($10 million); and Key Bank ($10 million). This credit facility had been in place since December 1998, was previously renewed for a one-year period on December 19, 1999, had full recourse to the Company, and was secured by a blanket lien against all of the Company's assets.

In addition, the Company had entered into pledge agreements to pledge the common stock of all wholly-owned subsidiaries. The interest rates charged under the facility were LIBOR plus 1.5% or Prime minus .5%, depending on the term of the borrowing. The facility expired on December 16, 2000. Effective December 15, 2000, the Company entered into a $20 million 364 day, committed, secured recourse facility through National City Bank. It had full recourse to the Company, and was secured by a blanket lien against all of the Company's assets. In addition, the Company entered into pledge agreements to pledge 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 under the facility are LIBOR plus a margin ranging from 1.50% to 2.25% or Prime plus a margin ranging from 0% to .25%. The margin was determined by a matrix that was based on a ratio of the Company's total recourse funded debt to EBITDA (earnings before interest, tax, depreciation, and amortization) as determined under the facility.

Subsequently, on January 19, 2001, the $20 million National City credit facility was amended and increased to $35 million and the term was lengthened to 3 1/4 years. The new facility expires on April 17, 2004. In addition, Branch Banking and Trust Company ($10 million) and PNC Bank, N.A. ($5 million) were added to the facility and National City was appointed agent. The margin related to the LIBOR interest rate option was increased from 1.50% to 2.25% to 1.75% to 2.50%. As of March 31, 2001, the Company had an outstanding balance of $5 million on the National City Credit Facility. The loss of this relationship could have a material adverse effect on our future results as we rely on this facility for daily working capital and liquidity for our leasing business.

In general, we use this 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. As of March 31, 2000, the outstanding balance on this First Union Facility amounted to $34.5 million, and represented 88.4% of the outstanding recourse debt. As of March 31, 2001, the outstanding balance on the National City Facility amounted to $5 million, and represented 56.3% of the outstanding recourse debt. The Company has a $3.1 million subordinated recourse note payable due to Centura Bank resulting from the acquisition of CLG, Inc. This note comes due in October, 2006 and has an 11% interest rate payable monthly.

ePlus Technology of NC, inc., ePlus Technology of PA, inc. and ePlus Technology, inc. have separate credit facilities to finance their working capital requirements for inventories and accounts receivable.

Their traditional business as sellers of personal computers 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 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 day time frame and represent an assigned accounts payable originally generated with the supplier/distributor. If the thirty to forty day obligation is not paid timely, interest is then assessed at stated contractual rates.

In addition to the floor planning financing, ePlus Technology, inc. and ePlus Technology of NC, inc. have accounts receivable facilities through Deutsche Financial Services Corporation. Of the total $33 million dollar facility provided by Deutsche Financial Services Corporation, $26 million is for traditional inventory floor planning and $7 million is available for accounts receivable financing. The maximum available under the accounts receivable facilities for ePlus Technology, inc. and ePlus Technology of PA, inc. are $5 million and $2 million respectively and as of March 31, 2001 the balance of these account receivable facilities, which is included in recourse notes payable, were $112,618 and $0 respectively. As of March 31, 2001 the respective floor planning inventory agreement maximum credit limits and actual outstanding balances are as follows:

Entity	Floor Plan Supplier	Credit Limit	Balance at March 31, 2001
*e*Plus Technology of NC, inc.	Deutsche Financial Services, Inc.	$3,500,000	$1,554,793
	IBM Credit Corporation	$ 250,000	$ 0
*e*Plus Technology of PA, inc.	Deutsche Financial Services, Inc.	$9,000,000	$7,893,419
	IBM Credit Corporation	$2,000,000	$1,056,318
*e*Plus Technology, inc.	Deutsche Financial Services, Inc.	$13,500,000	$8,663,724

Until it was terminated on February 15, 2001, ePlus Technology of PA, inc. had a line of credit in place with PNC Bank, N.A. with a maximum loan limit of $2,500,000 and it was guaranteed by ePlus, inc. The facilities provided by Deutsche Financial Services Corporation for ePlus Technology of PA, inc. and ePlus Technology , inc. requires a separate guaranty of up to $4,900,000 and $2,000,000 respectively, by ePlus inc. The floor planning facility provided by IBM Credit Corporation to ePlus Technology of PA, inc. also requires a guaranty by ePlus, inc. for the total balance outstanding.

Availability under the revolving 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.

ePlus Technology, inc. was previously supplied a floor planning facility by BankAmerica Credit who terminated the agreement, effective August 16, 2000. ePlus Technology, inc. contracted with Deutsche Financial Services Corporation on August 30, 2000, to replace the previous supplier. Both ePlus Technology of NC, inc. and ePlus Technology of PA, inc. agreements with Finova Capital Corp. were terminated on February 25, 2001. Both ePlus Technology of PA, inc. and ePlus Technology of NC, inc. replaced these facilities under agreements with Deutsche Financial Services Corporation. The loss of the Deutsche Financial Services Corporation relationship 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.

Non-recourse notes payable decreased to $158.0 million at March 31, 2001 from $182.8 million as of March 31, 2000. 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 a default under a lease by the lessee, is against the lessee and the specific equipment under lease.

We sell our leases to a number of financial institutions. In particular, through MLC/CLC LLC, we have a formal joint venture arrangement with an institutional investor, which purchases a substantial portion of our total equipment under lease. Firstar Equipment Finance, a subsidiary of Firstar Corporation, a bank holding company, is an unaffiliated investor that owns 95% of MLC/CLC LLC. MLC/CLC LLC represented approximately $14.7 million of our total leased equipment sales of $34.0 million or 43.1% for the year ended March 31, 2001. It represented approximately $28.7 million of our leased equipment sales of $57.4 million or 50.0% for the year ended March 31, 2000. Firstar Equipment Finance Corporation discontinued its investment in new lease acquisitions effective May 31, 2000.

As of March 31, 2001 amounts due to vendors for inventory and general expenses ("Accounts Payable - trade") and amounts due to vendors for equipment that will be placed on lease ("Accounts Payable - equipment") totaled $28.2 million, as compared to $52.4 million at March 31, 2000.

As of March 31, 2001 and 2000, the Company had $1.9 and $1.2 million in notes receivable, respectively. As of March 31, 2000, we had an outstanding note receivable of $.8 million from a corporation in which we also had warrants to acquire a major equity share. Subsequent to year-end, the maker of the note was acquired and the note receivable was converted into cash from partial repayment, common stock and additional warrants of the acquiring entity.

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 ePlusSuite 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.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Certain statements contained herein are not based on historical fact, but are forward-looking statements that are based upon numerous assumptions about future conditions that may not occur. Actual events, transactions and results may materially differ from the anticipated events, transactions, or results described in such statements. 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 an extremely 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 *e*PlusSuite 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 *e*PlusSuite 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 *e*PlusSuite 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 business unit 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 *e*PlusSuite services in November, 1999. Broad and timely acceptance of the *e*PlusSuite 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 *e*PlusSuite 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 *e*PlusSuite, 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 *e*PlusSuite services.

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 Duetsche 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 Deutsche 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, 2001, the aggregate fair value of our recourse borrowings approximated their carrying value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See accompanying Table of Contents to Financial Statements and Schedule on page F-1.

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 and 13 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.

NAME	AGE	POSITION	CLASS
Phillip G. Norton	57	Director, Chairman of the Board, President and Chief Executive Officer	III
Bruce M. Bowen	49	Director and Executive Vice President	III

Steven J. Mencarini 45	Senior Vice President and Chief Financial Officer	
Kleyton L. Parkhurst........................38	Senior Vice President, Secretary, and Treasurer	
Terrence O'Donnell. 57	Director	II
Carl J. Rickertsen. 41	Director	II
C. Thomas Faulders, III. 51	Director	I
David Rose. 40	President, *e*Plus Technology of NC, inc.	
Vincent M. Marino. 43	President, *e*Plus Technology of PA, inc.	
Nadim Achi....................................39	President, *e*Plus Technology, inc.	

On May 4, 2001 Mr. Rickertsen resigned as a Director of the Company. On March 30, 2001, Mr. Lawrence S. Herman was elected to the Board of Directors. On June 18, 2001, Mr. Thomas L. Hewitt was elected to the Board of Directors.

PART IV

ITEM 14. 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 Schedules are filed as a part of this report and incorporated herein by reference.

(b) Reports on Form 8-K

The Company filed four Form 8-K's during the last quarter of the period covered by this report.

Form 8-K filed with the Commission on January 5, 2001 regarding the press release of the third and fourth quarter earning release. No financial statements were included.

Form 8-K filed on February 2, 2001 announcing that ePlus inc along with its wholly-owned subsidiaries ePlus Group, inc, ePlus Capital, inc. and ePlus Government, inc. had established with National City Bank, as administrative agent, an amended and restated credit agreement with a $35 million dollar limit. No financial statements were included.

Form 8-K dated February 28, 2001 and filed with the Commission on March 13, 2001 reporting on the establishment of floor planning agreements and account receivable financing agreements with ePlus Technology, inc., ePlus Technology of PA, inc., and ePlus Technology of NC, inc. and Deutsche Financial Services Corporation. The agreements establish a total of $33 million dollars of floor planning and accounts receivable financing facility. No financial statements were included.

(c) Exhibits

Exhibit Number	Description
2.1(7)	Stock Purchase Agreement, dated as of October 23, 1998 by and between MLC Holdings, Inc. and TC Leasing, LLC
2.2(9)	Agreement, dated as of February 25, 2000 by and between *e*Plus inc. and TC Plus, LLC waiving certain provisions of the Stock Purchase Agreement dated as of October 23, 1998 by and between MLC Holdings, Inc. and TC Leasing, LLC
2.3(10)	Amendment, dated as of April 11, 2000, to the Agreement, dated as of February 25, 2000 by and between *e*Plus inc. and TC Plus, LLC
3.1(4)	Certificate of Incorporation of the Company, as amended
3.2	Certificate of Amendment to Certificate of Incorporation
3.3(1)	Bylaws of the Company
4.1(1)	Specimen certificate of Common Stock of the Company
10.1(1)	Form of Indemnification Agreement entered into between the Company and its directors and officers
10.2(1)*	Form of Employment Agreement between the Registrant and Phillip G. Norton
10.3(1)*	Form of Employment Agreement between the Registrant and Bruce M. Bowen
10.4(1)*	Form of Employment Agreement between the Registrant and Kleyton L. Parkhurst
10.5(3)*	Form of Employment Agreement between the Registrant and Steven J. Mencarini
10.6(5)*	Form of Employment Agreement between the Registrant and Nadim Achi
10.7(4)*	MLC Master Stock Incentive Plan
10.8(4)*	Amended and Restated Incentive Stock Option Plan
10.9(4)*	Amended and Restated Outside Director Stock Option Plan
10.10(4)*	Amended and Restated Nonqualified Stock Option Plan

10.11(4)*	1997 Employee Stock Purchase Plan
10.12(6)	1998 Long Term Incentive Plan
10.13(2)	First Amendment to Loan and Security Agreement dated March 12, 1997 between MLC Group, Inc. and Heller Financial, Inc.
10.14	Amended and Restated Stockholders Agreement dated as of April 11, 2000, by and among *e*Plus inc., TC Plus, LLC, Phillip G. Norton, Bruce M. Bowen, J.A.P. Investment Group, L.P., Kevin M. Norton and Patrick J. Norton, Jr.
10.15(1)	Form of Irrevocable Proxy and Stock Rights Agreement
10.16(10)	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
10.17(11)	Business Financing Agreement dated September 8, 2000 between Deutsche Financial Services Corporation and ePlus Technology, inc.
10.18(11)	Agreement for Wholesale Financing dated September 8, 2000 between Deutsche Financial Services and ePlus Technology, inc.
10.19(11)	Paydown Addendum to Business Financing Agreement between Deutsche Financial Services and ePlus Technology, inc.
10.20(11)	Limited Guaranty dated September 8, 2000 between Deutsche Financial Services and ePlus, inc.
10.21(12)	Agreement for Wholesale Financing between Deutsche Financial Services and ePlus Technology of PA, inc., dated February 12, 2001
10.22(12)	Business Financing Agreement between Deutsche Financial Services Corporation and ePlus Technology of PA, inc., dated February 12, 2001
10.23(12)	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
10.24(12)	Limited Guaranty for ePlus Technology of PA, Inc. to Deutsche Financial Services Corporation by ePlus, inc., dated February 12, 2001
10.25(12)	Intercreditor Subordination Agreement between Deutsche Financial Services Corporation and IBM Credit Corporation and ePlus Technology of PA, inc., dated February 26, 2001
10.26(12)	Agreement for Wholesale Financing between Deutsche Financial Services Corporation and ePlus Technology of NC, inc., dated February 12, 2001

10.27(12)	Addendum to Agreement for Wholesale Financing between ePlus Technology of NC, inc. and Deutsche Financial Services Corporation, dated February 12, 2001
10.28(12)	Addendum to Agreement for Wholesale Financing between ePlus Technology of NC, inc. and Deutsche Financial Services Corporation, dated February 12, 2001
10.29(12)	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 September 8, 2000
10.30	Deed of Lease between CALEAST INDUSTRIAL INVESTORS, LLC (Landlord) and ePlus, inc. (Tenant)
21.1	Subsidiaries of the Company
23.1	Consent of Deloitte & Touche LLP

* Indicates a management contract or compensatory plan or arrangement

(1) Incorporated herein by reference to the indicated exhibit filed as part of the Registrant's Registration Statement on Form S-1 (No. 333-11737)

(2) Incorporated herein by reference to Exhibit 5.2 filed as part of the Registrant's Form 8-K filed March 28, 1997

(3) Incorporated herein by reference to the indicated exhibit filed as part of the Registrant's Form 10-K filed on June 30, 1997

(4) Incorporated herein by reference to the indicated exhibit filed as part of the Registrant's Form 10-Q filed on November 14, 1997

(5) Incorporated herein by reference to the indicated exhibit filed as a part of the Registrant's Form 8-K filed on July 31, 1998

(6) Incorporated herein by reference to Exhibit 1.1 filed as a part of the Registrant's Form 10-Q filed on November 12, 1998

(7) Incorporated herein by reference to the indicated exhibit filed as a part of the Registrant's Form 8-K filed on December 31, 1998

(8) Incorporated herein by reference to Exhibit 99.3 filed as part of the Registrant's Form 8-K filed on March 9, 2000

(9) Incorporated herein by reference to Exhibit 99.2 filed as part of the Registrant's Form 8-K filed on May 12, 2000

(10) Incorporated herein by reference to Exhibit 5.1 filed as part of the Registrant's Form 8-K filed on February 2, 2001

(11) Incorporated herein by reference to Exhibits 5.1, 5.2, 5.3 and 5.4 filed as part of the Registrant's Form 8-K filed on September 22, 2000

(12) Incorporated herein by reference to Exhibits 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8 and 5.9 filed as part of the Registrant's Form 8-K filed on March 13, 2001

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

*e*Plus inc.

/s/ PHILLIP G. NORTON
By: Phillip G. Norton, Chairman of the Board,
President and Chief Executive Officer
Date: June 27, 2001

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 27, 2001

/s/ BRUCE M. BOWEN
By: Bruce M. Bowen, Director and Executive
Vice President
Date: June 27, 2001

/s/ STEVEN J. MENCARINI
By: Steven J. Mencarini, Senior Vice President,
Chief Financial Officer, Principal Accounting Officer
Date: June 27, 2001

/s/ C. THOMAS FAULDERS, III
By: C. Thomas Faulders, III, Director
Date: June 27, 2001

/s/ LAWRENCE S. HERMAN
By: Lawrence S. Herman, Director
Date: June 27, 2001

/s/ THOMAS L. HEWITT
By: Thomas L. Hewitt, Director
Date: June 27, 2001

/s/ TERRENCE O'DONNELL
By: Terrence O'Donnell, Director
Date: June 27, 2001

_e_Plus inc. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	PAGE
Independent Auditors' Report	F-2
Consolidated Balance Sheets as of March 31, 2000 and 2001	F-3
Consolidated Statements of Earnings for the Years Ended March 31, 1999, 2000, and 2001	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended March 31, 1999, 2000 and 2001	F-5
Consolidated Statements of Cash Flows for the Years Ended March 31, 1999, 2000 and 2001	F-6
Notes to Consolidated Financial Statements	F-8
SCHEDULE	
II-Valuation and Qualifying Accounts for the Three Years Ended March 31, 1999, 2000 and 2001.	S-1

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
*e*Plus inc.
Herndon, Virginia

We have audited the accompanying consolidated balance sheets of *e*Plus inc. and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(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 *e*Plus inc. and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 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.

/s/ DELOITTE & TOUCHE LLP

McLean, Virginia
June 22, 2001

_e_ Plus inc. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of March 31, 2000	As of March 31, 2001
ASSETS		
Cash and cash equivalents	$ 21,909,784	$ 24,534,183
Accounts receivable, net of allowance for doubtful accounts of $811,545 and $1,392,297 as of March 31, 2000 and 2001, respectively	60,166,596	57,627,231
Notes receivable (1)	1,195,263	1,862,488
Employee advances	94,693	66,082
Inventories	2,445,425	2,651,087
Investment in direct financing and sales-type leases - net	221,884,864	198,563,222
Investment in operating lease equipment - net	10,114,392	4,282,985
Property and equipment - net	2,895,711	5,216,123
Deferred tax asset	-	310,476
Other assets (2)	24,628,020	15,753,599
TOTAL ASSETS	$ 345,334,748	$ 310,867,476
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable - equipment	$ 22,975,545	$ 9,226,813
Accounts payable - trade	29,451,907	18,925,939
Salaries and commissions payable	956,762	1,292,722
Accrued expenses and other liabilities	8,519,353	21,351,575
Income taxes payable	3,685,870	1,327,591
Recourse notes payable	39,017,168	8,875,595
Nonrecourse notes payable	182,845,152	157,959,706
Deferred tax liability	762,139	-
Total Liabilities	288,213,896	218,959,941
COMMITMENTS AND CONTINGENCIES (Note 7)	-	-
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $.01 par value; 25,000,000 and 50,000,000 authorized; 7,958,433 and 9,730,154 issued and outstanding at March 31, 2000 and 2001, respectively	79,584	97,301
Additional paid-in capital	29,926,168	56,376,934
Retained earnings	27,115,100	35,433,300
Total Stockholders' Equity	57,120,852	91,907,535
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 345,334,748	$ 310,867,476

(1) Includes amounts with related parties of $985,767 and $0 as of March 31, 2000 and 2001, respectively.
(2) Includes amounts with related parties of $1,509,450 and $1,020,633 as of March 31, 2000 and 2001, respectively.

See Notes to Consolidated Financial Statements.

***e*Plus inc. AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended March 31,		
	1999	2000	2001
REVENUES			
Sales of equipment	$ 83,516,254	$ 166,252,178	$ 216,183,181
Sales of leased equipment	84,378,800	57,360,366	34,031,381
	167,895,054	223,612,544	250,214,562
Lease revenues	20,610,542	31,374,244	42,693,839
Fee and other income	5,464,242	8,371,115	7,992,752
e PlusSuite revenues	-	1,375,901	5,684,743
	26,074,784	41,121,260	56,371,334
TOTAL REVENUES (1)	193,969,838	264,733,804	306,585,896
COSTS AND EXPENSES			
Cost of sales, equipment	71,367,090	147,209,320	182,473,685
Cost of sales, leased equipment	83,269,110	55,454,033	33,329,403
	154,636,200	202,663,353	215,803,088
Direct lease costs	6,183,562	8,025,343	16,534,992
Professional and other fees	1,222,080	2,125,523	3,363,324
Salaries and benefits	11,880,062	19,189,271	30,610,437
General and administrative expenses	5,151,494	7,090,070	10,766,333
Interest and financing costs	3,601,348	11,389,682	15,522,897
	28,038,546	47,819,889	76,797,983
TOTAL COSTS AND EXPENSES (2)	182,674,746	250,483,242	292,601,071
Earnings before provision for income taxes	11,295,092	14,250,562	13,984,825
Provision for income taxes	4,578,625	5,875,194	5,666,625
NET EARNINGS	$ 6,716,467	$ 8,375,368	$ 8,318,200
NET EARNINGS PER COMMON SHARE - BASIC	$ 0.99	$ 1.09	$ 0.86
NET EARNINGS PER COMMON SHARE - DILUTED	$ 0.98	$ 0.91	$ 0.80
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	6,769,732	7,698,287	9,625,891
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	6,827,528	9,155,056	10,383,467

(1) Includes amounts from related parties of $82,652,623, $28,976,999 and $14,923,606 for the fiscal years ended March 31, 1999, 2000 and 2001, respectively.

(2) Includes amounts from related parties of $80,966,659, $28,261,282 and $15,588,046 for the fiscal years ended March 31, 1999, 2000 and 2001, respectively.

See Notes to Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in	Retained	
	Shares	Par Value	Capital	Earnings	TOTAL
Balance April 1, 1998	6,071,505	$60,715	$11,460,331	$12,023,265	$23,544,311
Issuance of shares for option exercise	10,500	105	91,770	-	91,875
Issuance of shares to employees	14,001	140	112,452	-	112,592
Issuance of shares in business combination	263,478	2,635	3,620,188	-	3,622,823
Sale of common shares	1,111,111	11,111	9,714,630	-	9,725,741
Net earnings	-	-	-	6,716,467	6,716,467
Balance, March 31, 1999	7,470,595	74,706	24,999,371	18,739,732	43,813,809
Issuance of shares for option exercise	61,044	610	662,406	-	663,016
Issuance of shares to employees	33,804	338	315,395	-	315,733
Issuance of shares in business combination	392,990	3,930	3,896,496	-	3,900,426
Issuance of common stock purchase warrants	-	-	52,500	-	52,500
Net earnings	-	-	-	8,375,368	8,375,368
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

See Notes to Consolidated Financial Statements.

***e* Plus inc. AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	1999	2000	2001
Cash Flows From Operating Activities:			
Net earnings	$ 6,716,467	$ 8,375,368	$ 8,318,200
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,720,241	7,574,165	11,248,760
Provision for credit losses	500,000	374,580	1,772,768
Deferred taxes	1,805,210	(2,530,071)	(1,072,615)
Loss (Gain) on sale of operating lease equipment	57,984	(753,787)	(333,299)
Adjustment of basis to fair market value of operating lease equipment and investments	306,921	12,000	1,593,760
Payments from lessees directly to lenders	(970,483)	(7,523,540)	(6,112,406)
Expense related to issuance of warrants	-	52,500	225,000
Loss on disposal of property and equipment	26,246	47,492	14,765
Changes in:			
Accounts receivable	(19,809,403)	(17,839,402)	3,191,633
Notes receivable (1)	3,316,261	(494,622)	(1,971,904)
Employee advances	33,028	(48,736)	22,929
Inventories	1,293,081	6,791,464	(177,422)
Other assets (2)	(4,094,505)	(3,939,783)	8,375,710
Accounts payable - equipment	(3,964,145)	4,926,486	(13,748,732)
Accounts payable - trade	528,181	16,175,112	(9,559,862)
Salaries and commissions payable, accrued expenses and other liabilities	1,097,776	7,279,067	8,679,370
Net cash provided by (used in) operating activities	(8,437,140)	18,478,293	10,466,655
Cash Flows From Investing Activities:			
Proceeds from sale of operating equipment	138,003	820,015	922,549
Purchase of operating lease equipment	(487,418)	(1,904,985)	(2,568,445)
Increase in investment in direct financing and sales-type leases (3)	(80,744,494)	(120,118,484)	(10,197,101)
Proceeds from sale of property and equipment	2,000	-	-
Purchases of property and equipment	(1,249,214)	(1,608,190)	(3,840,655)
Cash used in acquisitions, net of cash acquired	(3,485,279)	(1,845,730)	-
Increase in other assets (4)	(788,856)	(219,603)	(2,942,046)
Net cash used in investing activities	(86,615,258)	(124,876,977)	(18,625,698)

***e* Plus inc. AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

	1999	2000	2001
Cash Flows From Financing Activities:			
Borrowings:			
Nonrecourse	$ 79,941,563	$ 126,758,387	$ 90,908,400
Recourse	415,606	732,276	325,446
Repayments:			
Nonrecourse	(10,200,352)	(22,234,446)	(76,961,083)
Recourse	(195,892)	(1,408,934)	(183,515)
Proceeds from issuance of capital stock, net of expenses	9,930,209	978,749	307,095
Proceeds from sale of stock, net of underwriting	-	-	25,936,388
Proceeds from (repayments of) lines of credit	4,369,129	15,590,775	(29,549,289)
Net cash provided by financing activities	84,260,263	120,416,807	10,783,442
Net Increase (Decrease) in Cash and Cash Equivalents	(10,792,135)	14,018,123	2,624,399
Cash and Cash Equivalents, Beginning of Period	18,683,796	7,891,661	21,909,784
Cash and Cash Equivalents, End of Year	$ 7,891,661	$ 21,909,784	$ 24,534,183
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ 1,475,497	$ 3,591,943	$ 849,598
Cash paid for income taxes	$ 2,913,818	$ 6,473,357	$ 4,559,378

(1) Includes amounts provided (used by) by related parties of $3,291,681, $(466,812) and $0 for the fiscal years ended March 31, 1999, 2000 and 2001.

(2) Includes amounts provided by (used by) related parties of $ 329,275, $(1,383) and $(27,510) for the fiscal years ended March 31, 1999, 2000 and 2001.

(3) Includes amounts provided by related parties of $80,510,214, $28,033,282 and $14,254,197 for the fiscal years ended March 31, 1999, 2000 and 2001.

(4) Includes amounts provided by (used by) related parties of $652,701, $(219,603) and $1,376,246 for the fiscal years ended March 31, 1999, 2000 and 2001.

See Notes To Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and For the Years Ended March 31, 1999, 2000, and 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Effective October 18, 1999, MLC Holdings, Inc. changed its name to *e*Plus inc. ("*e*Plus" or the "Company"). Effective January 31, 2000, *e*Plus 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 *e*Plus Group, inc., *e*Plus Government, inc., *e*Plus Capital, inc., *e*Plus Technology, inc., *e*Plus Technology of NC, inc. and *e*Plus Technology of PA, inc., respectively. The accompanying consolidated financial statements include the accounts of the wholly-owned subsidiary companies (MLC Network Solutions, Inc. and Educational Computer Concepts, Inc.) at historical amounts as if the business combinations had occurred on March 31, 1997 in a manner similar to a pooling of interest. The accompanying consolidated financial statements also include the accounts of the wholly-owned subsidiary (PC Plus, Inc.) from July 1, 1998, accounted for as a purchase.

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 July 1, 1998, the Company, through a new wholly-owned subsidiary, MLC Network Solutions of Virginia, Inc., issued 263,478 common shares, valued at $3,622,823, and paid cash of $3,622,836 for a purchase of all the outstanding common shares of PC Plus, Inc., a value-added reseller of personal computers, related network equipment and software products and provider of various support services to its customers from its facility in Reston, Virginia. Subsequent to the acquisition, MLC Network Solutions of Virginia, Inc. changed its name to PC Plus, Inc. This business combination has been accounted for using the purchase method of accounting, and accordingly, the results of operations of PC Plus, Inc. have been included in the Company's consolidated financial statements from July 1, 1998. The Company's other assets include goodwill of $6,045,330 calculated as the excess of the purchase price over the fair value of the net identifiable assets acquired, and is being amortized on a straight-line basis over 27.5 years. As of March 31, 2000 and 2001, the net balance of such goodwill is $5,657,159 and $5,437,329, respectively. See Note 12.

On October 1, 1999, the Company purchased all of the stock of CLG, Inc., a technology equipment leasing business, from Centura Bank. The acquisition added approximately 400 customers and $93 million of assets to the Company's leasing customer base in the Raleigh and Charlotte, North Carolina, Greenville, North Carolina, and southern Virginia commercial markets. Total consideration for the acquisition was $36.5 million, paid by the issuance of 392,990 shares of *e*Plus inc. common stock valued at $3,900,426 (based on $9.925 per share), subordinated debt of $3,064,574 and $29,535,000 in cash. The subordinated debt bears annual interest at 11%, payable monthly, and the principal repayment is due on October 10, 2006. The note may be prepaid in

whole at anytime at its par value. The cash portion was partially financed by a non-recourse borrowing under an agreement with Fleet Business Credit Corporation, which provided $27,799,499 of cash at 7.25% and is collateralized by certain CLG, Inc. leases. Goodwill of $6,444,447 is being amortized on a straight-line basis over a fifteen-year period. As of March 31, 2000 and 2001, the net balance of such goodwill is $6,229,462 and $5,799,493, respectively. Concurrent with the acquisition, CLG, Inc. was merged into MLC Group, Inc., a wholly-owned subsidiary of *e*Plus inc. See Note 12.

Asset Purchase - On July 12, 1999, the Company purchased certain assets and the sales operations of Daghigh Software Company, Inc., which operated its technology sales business as International Computer Networks and as ICN in the metropolitan Washington, DC area. The purchase price of $751,452 consisted of $251,452 in cash and a $500,000, 8% interest bearing, non-negotiable promissory note, payable monthly, which matured on August 9, 2000. The assets and staff were merged into PC Plus, Inc., a wholly-owned subsidiary of the Company. Goodwill of $635,441 is being amortized on a straight-line basis over a fifteen year period. As of March 31, 2000 and 2001, the net balance of such goodwill is $607,199 and $564,836, respectively.

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. 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.

Amounts charged for the Company's electronic commerce business unit's Procur*e*+ service are recognized as services are rendered. Amounts charged for the Manag*e*+ service are recognized on a straight-line basis over the contractual period the services are provided.

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 reached a consensus on EITF 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 Emerging Issues Task Force reached a consensus on EITF 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.

Stock-based Compensation – The Company accounts for stock-based compensation for employees in accordance with Accounting Principle Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and comply with the disclosure provisions of Statement of Financial Accounting Standards, or SFAS, No. 123, "Accounting for Stock-based Compensation." Under APB Opinion No. 25, compensation expense is based on the difference, if any, on the measurement date, between the fair value of the common stock and the relevant exercise price. When applicable, the Company accounts for stock-based compensation to non-employees in accordance with the provisions of SFAS No. 123 and other applicable principals.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25," which clarifies the application of APB Opinion No. 25 for some issues, including: the definition of an employee for purposes of applying APB Opinion No. 25; the criteria for determining whether a plan qualifies as a non-compensatory plan; the accounting consequences of various modifications to the terms of a previously fixed stock option or award; and the accounting for an exchange of stock compensation awards in a business combination.

Interpretation No. 44 became effective July 1, 2000, but some of the conclusions cover specific events that occurred before its effectiveness. The adoption of this guidance did not have a material impact on the Company's 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). As of March 31, 2000 and 2001, the Company's reserve for credit losses was $2,658,846 and $4,279,479, respectively.

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.

Income Taxes - Deferred income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income tax liabilities and assets 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, 1999 and 2000 financial statements to conform to the March 31, 2001 presentation.

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 6,769,732 in fiscal 1999, 7,698,287 in 2000, and 9,625,891 in 2001. Diluted EPS amounts were calculated based on weighted average shares outstanding and common stock equivalents of 6,827,528 in fiscal 1999, 9,155,056 in 2000, and 10,383,467 in 2001. 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.

Capital Structure - On October 23, 1998, the Company sold 1,111,111 shares of common stock for a price of $9.00 per share to TC Plus LLC, a Delaware limited liability company (formerly TC Leasing LLC). In addition, the Company granted TC Plus LLC stock purchase warrants granting the right to purchase an additional 1,090,909 shares of common stock at a price of $11.00 per share, subject to certain anti-dilution adjustments. The warrant was exercisable through December 31, 2001, unless it was extended under the terms of the warrant. Pursuant to a purchase agreement, the Company's ability to pay dividends was restricted through October 23, 1999. On February 25, 2000, the Company entered into an agreement, which was amended April 11, 2000, which allowed TC Plus LLC to exercise the warrants on a cashless basis at an exercise price of $11.00 per share, contingent upon the Company's completion of a secondary offering. On April 11, 2000, TC Plus LLC exercised their options on a cashless basis and were issued 709,956 shares of common stock.

New Accounting Pronouncements - In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which, as amended by SFAS No. 138, establishes accounting and reporting standards for derivative instruments, including some derivative instruments embedded in other contracts, and for hedging activities. The statement requires companies to recognize all derivatives as either assets or liabilities, with the instruments measured at fair value. The accounting for changes in fair value and gains and losses depends on the intended use of the derivative and its resulting designation. Effective April 1, 2001, the Company adopted SFAS No. 133, as amended. The adoption did not have a material impact on the Company's consolidated financial statements.

Effective April 1, 2001, the Company adopted SFAS No. 140, "Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125," which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over the majority of SFAS No. 125's provisions without reconsideration. The Company's adoption of SFAS No. 140 did not have a material impact on its financial position or results of operations.

2. 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, 2000	As of March 31, 2001
	(In Thousands)	
Minimum lease payments	$ 213,284	$ 191,792
Estimated unguaranteed residual value	33,584	29,231
Initial direct costs, net of amortization (1)	2,958	3,531
Less: Unearned lease income	(26,093)	(23,104)
Reserve for credit losses	(1,848)	(2,887)
Investment in direct finance and sales type leases, net	$ 221,885	$ 198,563

(1) Initial direct costs are shown net of amortization of $3,686 and $5,014 at March 31, 2000
and 2001, respectively.

Future scheduled minimum lease rental payments as of March 31, 2001 are as follows:

	(In Thousands)
Year ending March 31, 2002	$ 114,852
2003	60,718
2004	12,783
2005	1,833
2006 and thereafter	1,606
	$ 191,792

The Company's net investment in direct financing and sales-type leases is collateral for non-recourse and recourse equipment notes. See Note 5.

3. 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, 2000	As of March 31, 2001
	(In Thousands)	
Cost of equipment under operating leases	$ 26,979	$ 20,589
Initial direct costs	19	15
Less: Accumulated depreciation and Amortization	(16,884)	(16,321)

Investment in operating lease equipment, net	$ 10,114	$ 4,283

Future scheduled minimum lease rental payments as of March 31, 2001 are as follows:

		(In Thousands)
Year Ending March 31,	2002	$ 5,746
	2003	1,222
	2004	172
	2005	1
		$ 7,141

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	As of March 31, 2000	2001
	(In Thousands)	
Furniture, fixtures and equipment	$ 3,086	$ 4,580
Vehicles	140	139
Capitalized software	1,350	3,603
Leasehold improvements	241	228
Less: Accumulated depreciation and amortization	(1,921)	(3,334)
Property and equipment, net	$ 2,896	$ 5,216

5. RECOURSE AND NON-RECOURSE NOTES PAYABLE

Recourse and non-recourse obligations consist of the following:

	As of March 31, 2000	2001
	(In Thousands)	
Recourse equipment notes secured by related investments in leases with varying interest rates ranging from 6.9% to 7.9% in fiscal years 2000 and 2001	$ 637	$ 479
Recourse line of credit with a maximum balance of $65,000,000 bearing interest at the LIBOR rate plus 150 basis points, or, at the Company's option, prime less 1/2% expired		

December, 2000	34,500	-0-
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; 8.0% interest rate effective on balance as of March 31, 2001	-0-	5,000
Recourse line of credit with a maximum balance of $33,000,000 bearing interest at prime less .5%	-0-	113
Recourse equipment notes with varying interest rates ranging from 7.13% to 8.25%, secured by related investment in equipment	316	220
Promissory notes with interest rate of 8% per terms and conditions of the Asset Purchase Agreement between *e*Plus Technology, inc and Daghigh Software Company, Inc.	500	-0-
Recourse note payable secured by investment in leases with 11% interest payable monthly, and principal balance due October, 2006	3,064	3,064
Total recourse obligations	$ 39,017	$ 8,876
Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 5.14% to 14.00% in fiscal years 2000 and 2001	$ 182,845	$ 157,960

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, 2001, mature as follows:

	Recourse Notes Payable	Non-recourse Notes Payable
	(In Thousands)	
Year ending March 31, 2002	$ 5,365	$ 89,199
2003	247	51,754
2004	200	12,684
2005	0	2,632
2006 and thereafter	3,064	1,691
	$ 8,876	$ 157,960

6. RELATED PARTY TRANSACTIONS

The Company provided loans and advances to employees, the balances of which amounted to $94,693 and $66,082 as of March 31, 2000 and 2001, 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.

As of March 31, 2000 and 2001, the Company's other assets includes $99,219 and $97,349, respectively, payable to United Federal Leasing, which is owned in part by an individual related to a Company executive.

During the year ended March 31, 1999, the Company recognized remarketing fees of $216,828 from a company in which an employee/stockholder has a 45% ownership interest.

During the year ended March 31, 2000, the Company advanced money to an entity in which the Company owns a stock purchase warrant. As of March 31, 2000, the balance of advances to this entity was $816,506, and is included in notes receivable. During the year ended March 31, 2001, $420,711 of unpaid advances were converted into a common stock investment in a successor entity, and is included in other assets.

During the years ended March 31, 1999, 2000, and 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 42%, 11% and 5% of the Company's revenues, respectively. Revenue recognized from the sales was $81,089,883, $28,666,120 and $14,654,844, respectively. The basis for the equipment sold was $80,510,214, $28,033,282 and $14,254,197, respectively. Notes receivable as of March 31, 2000 includes $169,261 due from the joint venture. Other assets reflects the investment in the joint venture of $1,608,669 and $628,218, as of March 31, 2000 and 2001,

respectively, accounted for using the cost method, and reflects an impairment of $1,085,000 recognized during the year ended March 31, 2001. The Company receives an origination fee on leased equipment sold to the joint venture. In addition, the Company recognized $301,708, $310,879 and $268,762 for the years ended March 31, 1999, 2000 and 2001 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 subsidiaries of the Company. During the years ended March 31, 1999, 2000, and 2001, rent expense paid to these related parties was $269,558, $228,000, and $248,849, respectively.

The Company is reimbursed for certain general and administrative expenses by a company owned, in part, by an executive of a subsidiary of the Company. The reimbursement totaled $25,500 for the year ended March 31, 1999.

7. 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 $629,456, $799,384, and $1,222,389 for the years ended March 31, 1999, 2000, and 2001, respectively. As of March 31, 2001, the future minimum lease payments are due as follows:

		(In Thousands)
Year Ending March 31,	2002	$ 1,113
	2003	951
	2004	790
	2005	379
		$ 3,233

8. 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, 1999	2000	2001
	(In Thousands)		
Statutory federal income tax rate	34%	34%	34%
Income tax expense computed at the statutory federal rate	$ 3,840	$ 4,845	$ 4,755
State income tax expense, net of federal tax	529	547	678
Non-taxable interest income	(16)	(21)	(15)
Non-deductible expenses	226	504	249
Provision for income taxes	$ 4,579	$ 5,875	$ 5,667
Effective imcome tax rate	40.58%	41.23%	40.52%

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

	For the Year Ended March 31,		
	1999	2000	2001
	(In Thousands)		
Current:			
Federal	$ 2,519	$ 7,126	$ 5,237
State	255	1,278	1,502
	2,774	8,404	6,739
Deferred:			
Federal	$ 1,259	$ (2,080)	$ (762)
State	546	(449)	(310)
	1,805	(2,529)	(1,072)
	$ 4,579	$ 5,875	$ 5,667

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

	For the Year Ended March 31,		
	1999	2000	2001
	(In Thousands)		
Alternative minimum tax	$ (1,307)	$ (161)	$ 1,701
Lease revenue recognition	3,083	(1,681)	(198)
Other	29	(687)	(2,575)
	$ 1,805	$ (2,529)	$ (1,072)

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,		
	1999	2000	2001
	(In Thousands)		
Alternative minimum tax	$ 1,539	$ 1,701	$ 0
Lease revenue recognition	(4,720)	(3,039)	(2,841)
Allowance for doubtful accounts and credit reserves	282	314	2,377
Other	(393)	262	774
	$ (3,292)	$ (762)	$ 310

9. NONCASH INVESTING AND FINANCING ACTIVITIES

The Company recognized a reduction in recourse and non-recourse notes payable (Note 5) associated with its direct finance and operating lease activities from payments made directly by customers to third-party lenders amounting to $10,733,555, $28,739,422 and $33,004,241 for the years ended March 31, 1999, 2000, and 2001, 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 $10,231,793, $22,727,174 and $5,828,340 for the years ended March 31, 1999, 2000 and 2001, respectively.

10. 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 $104,617, $88,500 and $370,082 for the years ended March 31, 1999, 2000 and 2001, 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, 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, 2001 a total of 2,266,564 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 1,486,830 options are outstanding or have been exercised as of March 31, 2001;

b) the Nonqualified Stock Option Plan ("Nonqualified Plan"), under which 265,000 options are outstanding as of March 31, 2001;

c) the Outside Director Stock Option Plan ("Outside Director Plan"), under which 63,507 are outstanding or have been exercised as of March 31, 2001;

d) the Employee Stock Purchase Plan ("ESPP") under which 72,069 shares have been issued as of March 31, 2001.

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, 1999, 2000 and 2001 was $3.69, $5.50 and $9.86 per share, respectively.

A summary of stock option activity during the three years ended March 31, 2001 is as follows:

	Number of Shares	Exercise Price Range	Weighted Average Exercise Price
Outstanding, April 1, 1998	611,900	–	–
Options granted	275,507	$7.25 - $13.63	$9.89
Options exercised	(10,500)	$8.75	$8.75
Options forfeited	(97,000)	$8.75 - $13.50	$12.57
Outstanding, March 31, 1999	779,907		
Exercisable, March 31, 1999	326,566		
Outstanding, April 1, 1999	779,907	–	–
Options granted	576,400	$7.75 - $21.25	$8.08
Options exercised	(61,044)	$7.25 - $12.25	$10.84
Options forfeited	(29,318)	$8.75 - $13.00	$9.28
Outstanding, March 31, 2000	1,265,945		
Exercisable, March 31, 2000	448,513		
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	1,716,285		
Exercisable, March 31, 2001	1,000,765		

Additional information regarding options outstanding as of March 31, 2001 is as follows:

Options Outstanding			Options Exercisable	
Number	Weighted Average Remaining	Weighted Average	Number	Weighted Average

Outstanding	Contractual Life	Exercise Price	Exercisable	Exercise Price
1,716,285	8.0 years	$10.00	1,000,765	$9.02

Effective April 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." This Statement gave the Company the option of either (1) continuing to account for stock-based employee compensation plans in accordance with the guidelines established by Accounting Principles Board ("APB") 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 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 1999:

	Year Ended March 31,		
	1999	2000	2001
Net earnings, as reported	$ 6,716,467	$ 8,375,368	$ 8,318,200
Net earnings, pro forma	$ 5,687,667	$ 6,861,442	$ 5,877,713
Basic earnings per share, as reported	$ 0.99	$ 1.09	$ 0.86
Basic earnings per share, pro forma	$ 0.84	$ 0.89	$ 0.61
Diluted earnings per share, as reported	$ 0.98	$ 0.91	$ 0.80
Diluted earnings per share, pro forma	$ 0.83	$ 0.75	$ 0.57

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,		
	1999	2000	2001
Options granted under the Incentive Stock Option Plan:			
Expected life of option	5 years	5 years	5 years
Expected stock price volatility	37.02%	80.67%	97.867%
Expected dividend yield	0%	0%	0%
Risk-free interest rate	5.46%	5.95%	5.52%
Options granted under the Nonqualified Stock Option Plan:			
Expected life of option	5 years	-	-
Expected stock price volatility	37.02%	-	-
Expected dividend yield	0%	-	-

Risk-free interest rate	-	-	-
Options granted under the Outside Director Stock Option Plan:			
Expected life of option	8 years	-	-
Expected stock price volatility	37.02%	-	-
Expected dividend yield	0%	-	-
Risk-free interest rate	4.95%	-	-

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

	As of March 31, 2000		As of March 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Assets:				
Cash and cash equivalents	$ 21,910	$ 21,910	$ 24,534	$ 24,534
Liabilities:				
Non-recourse notes payable	182,845	177,954	157,960	157,756
Recourse notes payable	39,017	39,024	8,876	8,876

12. BUSINESS COMBINATIONS

During the year ended March 31, 1999, the Company acquired PC Plus, Inc., a value-added reseller of personal computers, related network equipment and software products and provider of various support services. This business combination has been accounted for as a purchase.

During the year ended March 31, 2000, the Company purchased all of the stock of CLG, Inc., a technology equipment leasing business, from Centura Bank. This business acquisition has been accounted for as a purchase.

The following pro forma financial information presents the combined results of operations of PC Plus, Inc. and CLG, Inc. as if the acquisitions had occurred as of the beginning of the twelve months ended March 31, 1999 and 2000, after giving effect to certain adjustments, including amortization of goodwill. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company, PC Plus, Inc. and CLG, Inc. constituted a single entity during such periods.

	(Unaudited) For the Year Ended March 31,	
	1999	2000
	(In thousands, except per share data)	
Total Revenues	$ 244,319	$ 280,732
Net Earnings	7,509	7,977
Net Earnings per Common Share - Basic	1.05	1.04
Net Earnings per Common Share - Diluted	1.04	0.87

13. PRIVATE PLACEMENTS OF COMMON STOCK AND WARRANT

On October 23, 1998, the Company sold 1,111,111 shares of common stock to TC Leasing LLC, a Delaware limited liability company, for a price of $9.00 per share. In addition, the Company

granted to TC Leasing LLC, a stock purchase warrant granting the right to purchase an additional 1,090,909 shares of common stock at a price of $11.00 per share, subject to certain anti-dilution adjustments. The warrant was exercisable through December 31, 2001, unless extended pursuant to the terms of the warrant. On February 25, 2000, the Company entered into an agreement, which was amended April 11, 2000, which allowed TC Plus LLC (formerly TC Leasing LLC) to exercise the warrants on a cashless basis at an exercise price of $11.00 per share, contingent upon the Company's completion of a secondary offering. On April 11, 2000, TC Plus LLC exercised their options on a cashless basis and were issued 709,956 shares of common stock. Pursuant to the terms of this private placement, the Company agreed to expand its Board of Directors to six persons, four of whom shall be appointed, in whole or in part, by TC Plus LLC. Additionally, the terms of the private placement restricted the Company's ability to pay dividends until October 23, 1999 without the consent of TC Plus LLC.

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 and technology business units (previously known as the lease financing and value added re-selling segments), as well as its electronic commerce ("e-commerce") business unit (created in fiscal 2000). The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. The technology business unit sells information technology equipment and related services primarily to corporate customers in the eastern United States. The e-commerce business unit 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.

Sales of equipment for the e-commerce business unit represents customer equipment purchases executed through Procur*e*+, an element of the Company's e-commerce business solution. The amounts charged for using Procur*e*+ are presented as *e*PlusSuite revenues in the consolidated statements of earnings. The e-commerce business unit's assets consist primarily of capitalized software costs.

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.

	Financing Business Unit	Technology Business Unit	e-commerce Business Unit	Total
	(In Thousands)			
Twelve months ended March 31, 1999				
Sales of equipment	$ 2,427,196	$ 81,089,058	$ -	$ 83,516,254
Sales of leased equipment	84,378,800	-	-	84,378,800
Lease revenues	20,610,542	-	-	20,610,542
Fee and other income	2,945,225	2,519,017	-	5,464,242
Total Revenues	110,361,763	83,608,075	-	193,969,838
Cost of sales	85,124,386	69,511,814	-	154,636,200
Direct lease costs	6,183,562	-	-	6,183,562
Selling, general and administrative expenses	7,038,094	11,215,542	-	18,253,636
Segment earnings	12,015,721	2,880,719	-	14,896,440
Interest expense	3,367,149	234,199	-	3,601,348
Earnings before income taxes	8,648,572	2,646,520	-	11,295,092
Assets	$ 127,784,876	$ 26,573,722	$ -	$ 154,358,598

	Financing Business Unit	Technology Business Unit	e-commerce Business Unit	Total
	(In Thousands)			
Twelve months ended March 31, 2000				
Sales of equipment	$ 2,103,603	$ 156,735,622	$ 7,412,953	$ 166,252,178
Sales of leased equipment	57,360,366	-	-	57,360,366
Lease revenues	31,374,244	-	-	31,374,244
Fee and other income	1,365,675	7,005,440	-	8,371,115
e PlusSuite℠ revenues	-	-	1,375,901	1,375,901
Total Revenues	92,203,888	163,741,062	8,788,854	264,733,804
Cost of sales	56,796,063	139,431,514	6,435,776	202,663,353
Direct lease costs	8,025,343	-	-	8,025,343
Selling, general and administrative expenses	11,643,013	16,052,509	709,342	28,404,864
Segment earnings	15,739,469	8,257,039	1,643,736	25,640,244
Interest expense	11,016,120	373,562	-	11,389,682
Earnings before income taxes	4,723,349	7,883,477	1,643,736	14,250,562
Assets	$ 295,161,280	$ 49,644,139	$ 529,329	$ 345,334,748
Twelve months ended March 31, 2001				
Sales of equipment	$ 777,780	$ 161,655,436	$ 53,749,965	$ 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	2,617,872	5,374,880	-	7,992,752
e PlusSuite revenues	-	-	5,684,743	5,684,743
Total Revenues	80,120,872	167,030,316	59,434,708	306,585,896
Cost of sales	34,411,304	135,680,709	45,711,075	215,803,088
Direct lease costs	16,534,992	-	-	16,534,992
Selling, general and administrative expenses	15,962,177	18,436,961	10,340,956	44,740,094
Segment earnings	13,212,399	12,912,646	3,382,677	29,507,722
Interest expense	15,242,395	280,502	-	15,522,897
(Loss) earnings before income taxes	(2,029,996)	12,632,144	3,382,677	13,984,825
Assets	$ 256,206,592	$ 52,746,069	$ 1,914,815	$ 310,867,476

15. SUBSEQUENT EVENT

On May 15, 2001, the Company purchased the assets of ProcureNet, Inc. for approximately $5.9 million, consisting of $1 million paid in cash, the issuance of 422,833 shares of unregistered common stock of the Company, and the assumption of certain liabilities. Two new subsidiaries, ePlus Systems, inc. and ePlus Content Services, inc. were created as part of the acquisition.

16. QUARTERLY DATA - UNAUDITED

Condensed quarterly financial information is as follows (amounts in thousands, except per share amounts). Adjustments reflect the results of operations of business combinations accounted for under the pooling of interests method and 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
Year Ended March 31, 2000						
Sales	$ 47,562	$ (408)	$ 47,154	$ 52,621	$ (1,143)	$ 51,478
Total Revenues	54,363	(408)	53,955	61,192	(1,143)	60,049
Cost of Sales	43,925	(408)	43,517	47,778	(1,143)	46,635
Total Costs and Expenses	51,859	(408)	51,451	57,710	(1,143)	56,567
Earnings before provision for income taxes	2,504	-	2,504	3,482	-	3,482
Provision for income taxes	1,002	-	1,002	1,393	-	1,393
Net earnings	1,502	-	1,502	2,089	-	2,089
Net earnings per common share-Basic (1)	$ 0.20		$ 0.20	$ 0.28		$ 0.28
Year Ended March 31, 2001						
Sales	$ 72,112	$ -	$ 72,112	$ 64,734	$ -	$ 64,734
Total Revenues	83,613	-	83,613	77,752	-	77,752
Cost of Sales	63,738	-	63,738	56,771	-	56,771
Total Costs and Expenses	79,472	-	79,472	74,348	-	74,348
Earnings before provision for income taxes	4,141	-	4,141	3,404	-	3,404
Provision for income taxes	1,657	-	1,657	1,381	-	1,381
Net earnings	2,484	-	2,484	2,023	-	2,023
Net earnings per common share-Basic (1)	$ 0.26		$ 0.26	$ 0.21		$ 0.21

	Third Quarter			Fourth Quarter		
	Previously Reported	Adjustments	Adjusted Amount	Previously Reported	Adjustments	Adjusted Amount
Year Ended March 31, 2000						
Sales	$ 63,549	$ (1,977)	$ 61,572	$ 63,409	$ -	$ 63,409
Total Revenues	76,240	(1,977)	74,263	76,460	-	76,460
Cost of Sales	57,625	(1,977)	55,648	56,860	-	56,860
Total Costs and Expenses	72,289	(1,977)	70,312	72,146	-	72,146
Earnings before provision for income taxes	3,951	-	3,951	4,314	-	4,314
Provision for income taxes	1,580	-	1,580	1,901	-	1,901
Net earnings	2,371	-	2,371	2,413	-	2,413
Net earnings per common share-Basic (1)	$ 0.30		$ 0.30	$ 0.30		$ 0.30
Year Ended March 31, 2001						
Sales	$ 59,351	$ -	$ 59,351	$ 54,018	$ -	$ 54,018
Total Revenues	73,675	-	73,675	71,546	-	71,546
Cost of Sales	49,164	-	49,164	46,130	-	46,130
Total Costs and Expenses	70,703	-	70,703	68,078	-	68,078
Earnings before provision for income taxes	2,972	-	2,972	3,468	-	3,468
Provision for income taxes	1,243	-	1,243	1,386	-	1,386
Net earnings	1,729	-	1,729	2,082	-	2,082
Net earnings per common share-Basic (1)	$ 0.18		$ 0.18	$ 0.21		$ 0.21

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

SCHEDULE II

***e*Plus inc. AND SUBSIDIARIES**

VALUATION AND QUALIFYING ACCOUNTS
For the three years ended March 31, 1999, 2000 and 2001
(In Thousands)

		Column C - Additions			
Column A - Description	Column B Balance at beginning of period	(1) Charged to costs and expenses	(2) Charged to other accounts	Column D Deductions	Column E Balance at end of period
2001 Allowance for doubtful accounts and credit losses	$ 2,659	$ 1,989	$ 0	$ 369	$ 4,279
2000 Allowance for doubtful accounts and credit losses	$ 728	$ 733	$ 1,731	$ 533	$ 2,659
1999 Allowance for doubtful accounts and credit losses	$ 142	$ 811	$ 75	$ 300	$ 728

OFFICES

ePlus Headquarters
400 Herndon Parkway
Herndon, VA 20170
V: 703.834.5710
F: 703.834.5718

California

P.O. Box 1171
Chino Hills, CA 91709
V: 909.393.0088
F: 909.393.8538

1900 Point West Way
Suite 120
Sacramento, CA 95815
V: 916.568.1555
F: 916.568.1590

615 South Main Street
Suite 6
Milpitas, CA 95035
V: 408.941.9665
F: 408.941.9694

P.O. Box 270052
San Diego, CA 92198
V: 858.756.7568
F: 858.756.7569

3930 Reposa Avenue
Santa Cruz, CA 95062
V: 831.476.1663
F: 831.476.1663

Connecticut

30 Tower Lane
Avon, CT 06001
V: 860.677.0222
F: 860.677.7157

Florida

1900 Corporate Boulevard
Suite 400E
Boca Raton, FL 33431
V: 561.988.6869
F: 561.988.6897

Indiana

1259 South River Road
Covington, IN 47932
V: 765.793.4429
F: 765.793.4498

Maryland

9200 Old Annapolis Rd
Suite 200
Columbia, MD 21045
V: 410.964.3300
F: 410.964.3302

Minnesota

353 Gamble Drive
Suite 395
Minneapolis, MN 55416
V: 763.513.9050
F: 763.513.9232

Missouri

7777 Bonhomme Avenue
Suite 1400
St. Louis, MO 63105
V: 314.854.1392
F: 314.854.1393

New Jersey

58 South Street
Suite D
Morristown, NJ 07960
V: 973.984.5343
F: 973.984.5659

New York

3500 Sunrise Highway
Suite D116
Great River, NY 11739
V: 631.775.1261
F: 631.775.1263

North Carolina

1201 Wood Ridge Ctr
Suite 112
Charlotte, NC 28217
V: 704.357.3888
F: 704.357.3844

703-G Greenville Sq.
Greenville, NC 27836
V: 252.756.9474
F: 252.756.5920

P. O. Box 882
Lewisville, NC 27023
V: 336.946.2045
F: 336.945.3025

3001 Spring Forest Rd
Raleigh, NC 27616
V: 919.872.7920
F: 919.876.1652

3825 Market Street
Wilmington, NC 28403
V: 910.763.3373
F: 910.762.8235

Pennsylvania

4660 Trindle Road
Suite 100
Camp Hill, PA 17011
V: 717.737.9790
F: 717.737.8577

130 Futura Drive
Pottstown, PA 19464
V: 610.495.7800
F: 610.495.2800

406 Willowbrook Lane
West Chester, PA 19382
V: 610.696.8310
F: 610.696.8422

Texas

5121 Bee Cave Road
Suite 207
Austin, TX 78746
V: 512.327.4765
F: 512.327.6109

5220 Spring Valley
LL#60
Dallas, TX 75240
V: 972.386.4886
F: 972.386.4177

9999 Veterans Memorial Drive
Houston, TX 77038
V: 281.504.7000
F: 281.504.7005

Transfer Agent

First Union National Bank of North Carolina
Shareholder Services Group
1525 West W.T. Harris Boulevard
Building 3C, 3rd Floor
Charlotte, NC 28288
V: 1.800.829.8432

e+

ePlus inc.

WWW.EPLUS.COM
NASDAQ: PLUS