

EPLUS INC
Form 10-Q
November 07, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from ____ to ____ .

Commission file number: 1-34167

ePlus inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of common stock outstanding as of October 31, 2012 was 8,080,322.

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CAUTIONARY LANGUAGE ABOUT FORWARD-LOOKING STATEMENTS

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

- we offer a comprehensive set of solutions—the bundling of our direct information technology (IT) hardware sales, third party software assurance and maintenance, professional services and financing with our proprietary software, and may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by similar companies, such as:
 - o managing a diverse product set of solutions in highly competitive markets;
 - o increasing the total number of customers utilizing bundled solutions by up-selling within our customer base and gaining new customers;
 - o adapting to meet changes in markets and competitive developments;
 - o maintaining and increasing advanced professional services by retaining highly skilled personnel and vendor certifications;
 - o integrating with external IT systems, including those of our customers and vendors; and
 - o continuing to enhance our proprietary software and update our technology infrastructure to remain competitive in the marketplace.
 - our ability to hire and retain sufficient qualified personnel;
 - a decrease in the capital spending budgets of our customers or purchases from us;
 - our ability to protect our intellectual property;
 - the creditworthiness of our customers and our ability to reserve adequately for credit losses;
 - the possibility of goodwill impairment charges in the future;
 - uncertainty and volatility in the global economy and financial markets;
 - changes in the IT industry;
- our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, or obtain non-recourse financing for our transactions;
 - our ability to realize our investment in leased equipment;
- significant adverse changes in, reductions in, or losses of relationships with major customers or vendors;
 - our ability to successfully integrate acquired businesses;
- our ability to maintain effective disclosure controls and procedures and internal control over financial reporting;
 - changes in taxes and other regulatory legislation that could require us to change our policies or structure;
 - reduction of manufacturer incentive programs; and
- significant changes in accounting guidance related to the financial reporting of leases; which could impact the demand for our leasing services.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of September 30, 2012	As of March 31, 2012
	(in thousands)	
ASSETS		
Cash and cash equivalents	\$43,935	\$ 33,778
Short-term Investments	1,970	7,396
Accounts receivable—net	194,344	174,599
Notes receivable—net	18,148	24,337
Inventories—net	15,783	23,514
Investment in leases and leased equipment—net	112,380	115,974
Property and equipment—net	2,040	2,086
Other assets	23,407	23,560
Goodwill	28,787	28,444
TOTAL ASSETS	\$440,794	\$ 433,688
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable—equipment	\$8,066	\$ 17,268
Accounts payable—trade	24,650	26,719
Accounts payable—floor plan	84,366	85,911
Salaries and commissions payable	9,673	9,500
Accrued expenses and other liabilities	34,833	40,822
Recourse notes payable	1,682	1,727
Non-recourse notes payable	33,020	26,328
Deferred tax liability	5,786	5,786
Total Liabilities	202,076	214,061
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued or outstanding	-	-
Common stock, \$.01 par value; 25,000,000 shares authorized; 12,820,478 issued and 8,079,919 outstanding at September 30, 2012 and 12,692,224 issued and 7,999,895 outstanding at March 31, 2012	128	127
Additional paid-in capital	96,056	93,545
Treasury stock, at cost, 4,740,559 and 4,692,329 shares, respectively	(66,973)	(65,416)
Retained earnings	209,001	190,906
Accumulated other comprehensive income—foreign currency translation adjustment	506	465

Total Stockholders' Equity	238,718	219,627
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$440,794	\$ 433,688

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2011 As Restated 2012 (1)		Six Months Ended September 30, 2011 As Restated 2012 (1)	
	(amounts in thousands, except shares and per share data)			
Sales of product and services	\$ 250,178	\$ 193,493	\$ 484,460	\$ 362,814
Financing revenue	7,413	7,305	15,313	14,739
Fee and other income	2,460	2,857	5,002	5,001
TOTAL REVENUES	260,051	203,655	504,775	382,554
COSTS AND EXPENSES				
Cost of sales, product and services	205,199	158,429	399,590	299,103
Direct lease costs	2,461	2,078	4,704	4,174
	207,660	160,507	404,294	303,277
Professional and other fees	2,707	2,355	5,820	4,780
Salaries and benefits	26,919	24,090	53,273	47,096
General and administrative expenses	5,411	4,507	10,066	8,540
Interest and financing costs	446	348	851	730
	35,483	31,300	70,010	61,146
TOTAL COSTS AND EXPENSES	243,143	191,807	474,304	364,423
EARNINGS BEFORE PROVISION FOR INCOME TAXES	16,908	11,848	30,471	18,131
PROVISION FOR INCOME TAXES	6,875	4,784	12,376	7,364
NET EARNINGS	\$ 10,033	\$ 7,064	\$ 18,095	\$ 10,767
NET EARNINGS PER COMMON SHARE—BASIC	\$ 1.29	\$ 0.87	\$ 2.34	\$ 1.31
NET EARNINGS PER COMMON SHARE—DILUTED	\$ 1.27	\$ 0.85	\$ 2.29	\$ 1.28
WEIGHTED AVERAGE SHARES OUTSTANDING—BASIC	7,770,206	8,153,495	7,745,506	8,230,022
WEIGHTED AVERAGE SHARES OUTSTANDING—DILUTED	7,920,927	8,327,748	7,912,818	8,422,099

(1) See Note 2, "Restatement of Financial Statements."

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended		Six months ended	
	September 30,		September 30,	
	2012	2011	2012	2011

(amounts in thousands)

NET EARNINGS	\$10,033	\$7,064	\$18,095	\$10,767
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	91	(197)	41	(182)
Other comprehensive (loss) income	91	(197)	41	(182)
TOTAL COMPREHENSIVE INCOME	\$10,124	\$6,867	\$18,136	\$10,585

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended September 30,	
	2012	2011
	(in thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$ 18,095	\$ 10,767
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,615	4,868
Reserves for credit losses and sales returns	40	335
Provision for inventory allowances and inventory returns	97	(297)
Share-based compensation expense	1,578	1,080
Excess tax benefit from exercise of stock options	(756)	(303)
Payments from lessees directly to lenders—operating leases	(2,391)	(2,049)
(Gain)/loss on disposal of property, equipment and operating lease equipment	(560)	340
(Gain)/loss on sales of notes receivable	(525)	(439)
Excess increase in cash value of life insurance	(75)	(78)
Other	(255)	(125)
Changes in:		
Accounts receivable—net	(19,551)	(30,328)
Notes receivable	1,028	(1,400)
Inventories—net	7,635	(3,259)
Investment in direct financing and sale-type leases—net	(795)	(447)
Other assets	(506)	9,709
Accounts payable—equipment	(9,081)	241
Accounts payable—trade	(2,037)	1,903
Salaries and commissions payable, accrued expenses and other liabilities	(4,949)	(10,643)
Net cash used in operating activities	\$ (7,393)	\$ (20,125)
Cash Flows From Investing Activities:		
Purchases in short-term investments	\$ (1,232)	\$ -
Maturities of short-term investments	6,658	-
Proceeds from sale of property, equipment and operating lease equipment	877	1,116
Purchases of property, equipment and operating lease equipment	(6,223)	(3,054)
Issuance of notes receivable	(17,237)	(19,690)
Repayments of notes receivable	9,387	10,703
Proceeds from transfer of notes receivable	13,420	11,896
Premiums paid on life insurance	(43)	(70)
Cash used in acquisition, net of cash acquired	-	(3,514)
Net cash provided by (used in) investing activities	\$ 5,607	\$ (2,613)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

	Six months ended September 30,	
	2012	2011
	(in thousands)	
Cash Flows From Financing Activities:		
Borrowings of non-recourse and recourse notes payable	\$ 14,605	2,300
Repayments of non-recourse and recourse notes payable	(500)	(292)
Repurchase of common stock	(1,557)	(10,034)
Proceeds from issuance of capital stock through option exercise	178	216
Excess tax benefit from share based compensation	756	303
Net repayments on floor plan facility	(1,545)	(85)
Net cash provided by (used in) financing activities	11,937	(7,592)
Effect of exchange rate changes on cash	6	(20)
Net Increase (Decrease) in Cash and Cash Equivalents	10,157	(30,350)
Cash and Cash Equivalents, Beginning of Period	33,778	75,756
Cash and Cash Equivalents, End of Period	\$ 43,935	\$ 45,406
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 1	