EPLUS INC
Form 10-Q
February 07, 2019

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 December 31, 2018

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	54-1817218
(State or other jurisdiction of incorporation or organization)	(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, 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, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 February 4, 2019 was 13,611,225.

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CAUTIONARY STATEMENT CONCERNING 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, or “Exchange Act,” and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements are not based on historical fact but are based upon numerous assumptions about future conditions that may not occur. Forward-looking statements are generally identifiable by use of forward-looking words such as “may,” “should,” “would,” “intend,” “estimate,” “will,” “potential,” “poss “could,” “believe,” “expect,” “intend,” “plan,” “anticipate,” “project,” and similar expressions. Readers are cautioned not to pla 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:

- national and international political instability fostering uncertainty and volatility in the global economy including exposure to fluctuation in foreign currency rates, interest rates, and downward pressure on prices;
- domestic and international economic regulations uncertainty (e.g., tariffs, North American Free Trade Agreement, and Trans-Pacific Partnership).
- significant adverse changes in, reductions in, or loss of our largest volume customer or one or more of our large volume customers, or vendors;
- exposure to changes in, interpretations of, or enforcement trends in legislation and regulatory matters;
- the creditworthiness of our customers and our ability to reserve adequately for credit losses;
- reduction of vendor incentives provided to us;
- managing a diverse product set of solutions in highly competitive markets with a number of key vendors;
- increasing the total number of customers using integrated solutions by up-selling within our customer base and gaining new customers;
- adapting to meet changes in markets and competitive developments;
- maintaining and increasing advanced professional services by recruiting and retaining highly skilled, competent personnel, and vendor certifications;
- increasing the total number of customers who use our managed services and professional services and continuing to enhance our managed services offerings to remain competitive in the marketplace;
- performing professional and managed services competently;
- maintaining our proprietary software and updating our technology infrastructure to remain competitive in the marketplace;
- reliance on third parties to perform some of our service obligations to our customers;
- changes in the Information Technology (“IT”) industry and/or rapid changes in product offerings, including the proliferation of the cloud, infrastructure as a service (“IaaS”), and software as a service (“SaaS”);
- our dependency on continued innovations in hardware, software, and services offerings by our vendors and our ability to partner with them;
- future growth rates in our core businesses;
- failure to comply with public sector contracts, or applicable laws or regulations;
- changes to or loss of members of our senior management team and/or failure to successfully implement succession plans;
- our dependence on key personnel to maintain certain customer relationships, and our ability to hire, train, and retain sufficient qualified personnel;
-

our ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration, and other key strategies;

- a possible decrease in the capital spending budgets of our customers or a decrease in purchases from us;
- our contracts may not be adequate to protect us, and we are subject to audit in which we may not pass, and our professional and liability insurance policies coverage may be insufficient to cover a claim;
- disruptions or a security breach in our or our vendors' IT systems and data and audio communication networks;

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- our ability to secure our own customers' electronic and other confidential information, and remain secure during a cyber-security attack;
- our ability to raise capital, maintain or increase as needed our lines of credit with vendors or floor planning facility, obtain debt for our financing transactions, or the effect of those changes on our common stock or its holders;
- our ability to realize our investment in leased equipment;
- our ability to successfully perform due diligence and integrate acquired businesses;
- the possibility of goodwill impairment charges in the future;
- our ability to protect our intellectual property rights and successfully defend any challenges to the validity of our patents or allegations that we are infringing upon any third-party patents, and the costs associated with those actions, and, when appropriate, license required technology; and
- significant changes in accounting standards including changes to the financial reporting of leases, which could impact the demand for our leasing services, or misclassification of products and services we sell resulting in the misapplication of revenue recognition policies or inaccurate costs and completion dates for our services, which could affect our estimates.

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 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 (in thousands, except per share amounts)

ASSETS	December 31, 2018	March 31, 2018 (as adjusted)
Current assets:		
Cash and cash equivalents	$ 84,334	$ 118,198
Accounts receivable—trade, net	324,695	268,287
Accounts receivable—other, net	34,245	28,401
Inventories	51,395	39,855
Financing receivables—net, current	94,023	69,936
Deferred costs	16,537	16,589
Other current assets	7,933	23,625
Total current assets	613,162	564,891
Financing receivables and operating leases—net	68,058	68,511
Property, equipment and other assets	17,843	19,143
Goodwill	76,401	76,624
Other intangible assets—net	22,725	26,302
TOTAL ASSETS	$ 798,189	$ 755,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 100,270	$ 106,933
Accounts payable—floor plan	124,558	112,109
Salaries and commissions payable	20,456	19,801
Deferred revenue	39,444	35,648
Recourse notes payable—current	-	1,343
Non-recourse notes payable—current	58,106	40,863
Other current liabilities	18,397	33,370
Total current liabilities	361,231	350,067
Non-recourse notes payable—long term	8,461	10,072
Deferred tax liability—net	1,438	1,662
Other liabilities	17,882	21,067
TOTAL LIABILITIES	389,012	382,868

COMMITMENTS AND CONTINGENCIES (Note 9)

STOCKHOLDERS' EQUITY

Preferred stock, $.01 per share par value; 2,000 shares authorized; none outstanding	-	-
Common stock, $.01 per share par value; 25,000 shares authorized; 13,640 outstanding at December 31, 2018 and 13,761 outstanding at March 31, 2018	143	142
Additional paid-in capital	135,418	130,000
Treasury stock, at cost, 664 shares at December 31, 2018 and 467 shares at March 31, 2018	(51,899)	(36,016)
Retained earnings	326,085	277,945
Accumulated other comprehensive income—foreign currency translation adjustment	(570)	532
Total Stockholders' Equity	409,177	372,603
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 798,189	$ 755,471

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Net sales	$345,664	$ 344,225	$1,047,239	$ 1,088,944
Cost of sales	262,751	267,537	798,123	847,092
Gross profit	82,913	76,688	249,116	241,852
Selling, general, and administrative	59,728	57,134	174,399	168,138
Depreciation and amortization	2,719	2,894	8,250	7,086
Interest and financing costs	443	270	1,403	903
Operating expenses	62,890	60,298	184,052	176,127
Operating income	20,023	16,390	65,064	65,725
Other income (expense)	721	(131)	1,140	(1)
Earnings before tax	20,744	16,259	66,204	65,724
Provision for income taxes	5,880	678	18,064	19,499
Net earnings	$14,864	$ 15,581	$48,140	$46,225
Net earnings per common share—basic	$1.10	$ 1.12	$3.57	$3.34
Net earnings per common share—diluted	$1.10	$ 1.11	$3.54	$3.30
Weighted average common shares outstanding—basic	13,471	13,851	13,467	13,845
Weighted average common shares outstanding—diluted	13,544	13,990	13,592	14,022

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 December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(amounts in thousands)			
NET EARNINGS	$14,864	$15,581	$48,140	$46,225
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	(302)	75	(1,102)	778
Other comprehensive income (loss)	(302)	75	(1,102)	778
TOTAL COMPREHENSIVE INCOME	$14,562	$15,656	$47,038	$47,003

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	Nine Months Ended December 31,	
	2018	2017 (as adjusted)
Cash Flows From Operating Activities:		
Net earnings	$ 48,140	$ 46,225
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	13,341	11,324
Reserve for credit losses, inventory obsolescence, and sales returns	269	286
Share-based compensation expense	5,418	4,856
Deferred taxes	(215)	(3,058)
Payments from lessees directly to lenders—operating leases	(118)	(1,325)
Gain on disposal of property, equipment, and leased equipment	(1,307)	(7,555)
Gain on sale of financing receivables	(5,030)	(4,625)
Other	-	1
Changes in:		
Accounts receivable	(56,769)	(10,271)
Inventories	(11,674)	43,332
Financing receivables—net	(1,070)	(13,045)
Deferred costs, other intangible assets, and other assets	3,971	(22,049)
Accounts payable	16,062	18,406
Salaries and commissions payable, deferred revenue, and other liabilities	(8,846)	(13,678)
Net cash provided by operating activities	$ 2,172	$ 48,824
Cash Flows From Investing Activities:		
Proceeds from sale of property, equipment, and leased equipment	2,550	9,967
Purchases of property, equipment, and operating lease equipment	(8,492)	(6,298)
Purchases of assets to be leased or financed	(13,941)	(5,716)
Issuance of financing receivables	(140,307)	(138,160)
Repayments of financing receivables	55,198	59,029
Proceeds from sale of financing receivables	56,983	64,103
Cash used in acquisitions, net of cash acquired	-	(37,718)
Net cash used in investing activities	$ (48,009)	$ (54,793)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

	Nine Months Ended December 31,	
	2018	2017 (as adjusted)
Cash Flows From Financing Activities:		
Borrowings of non-recourse and recourse notes payable	$ 40,693	$ 39,365
Repayments of non-recourse and recourse notes payable	(17,447)	(27,269)
Repurchase of common stock	(16,261)	(13,399)
Repayments of financing of acquisitions	(7,634)	(1,604)
Net borrowings (repayments) on floor plan facility	12,450	(24,851)
Net cash provided by (used) in financing activities	11,801	(27,758)
Effect of exchange rate changes on cash	172	72
Net Decrease in Cash and Cash Equivalents	(33,864)	(33,655)
Cash and Cash Equivalents, Beginning of Period	118,198	109,760
Cash and Cash Equivalents, End of Period	$ 84,334	$ 76,105
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 1,364	$ 421
Cash paid for income taxes	$ 18,269	$ 29,987
Schedule of Non-Cash Investing and Financing Activities:		
Proceeds from sale of property, equipment, and leased equipment	$ 483	$ 3,463
Purchases of property, equipment, and operating lease equipment	$ (2,704)	$ (751)
Purchases of assets to be leased or financed	$ 2,437	$ (7,225)
Issuance of financing receivables	$ (96,406)	$ (74,907)
Repayments of financing receivables	$ -	$ 9,572
Proceeds from sale of financing receivables	$ 88,119	$ 83,954
Financing of acquisitions	$ -	$ (12,050)
Borrowing of non-recourse and recourse notes payable	$ 65,042	$ 8,904
Repayments of non-recourse and recourse notes payable	$ (118)	$ (14,465)
Vesting of share-based compensation	$ 12,795	$ 12,010
Repurchase of common stock included in accounts payable	$ (393)	$ (766)

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-In	Treasury	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Capital	Stock	Earnings	Income	Total
Balance, April 1, 2018	13,761	$ 142	$ 130,000	$ (36,016)	$ 277,945	$ 532	$ 372,603
Issuance of restricted stock awards	75	1	-	-	-	-	1
Share-based compensation	-	-	5,418	-	-	-	5,418
Repurchase of common stock	(196)	-	-	(15,883)	-	-	(15,883)
Net earnings	-	-	-	-	48,140	-	48,140
Foreign currency translation adjustment	-	-	-	-	-	(1,102)	(1,102)
Balance, December 31, 2018	13,640	$ 143	$ 135,418	$ (51,899)	$ 326,085	$ (570)	$ 409,177

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS — Our company was founded in 1990 and is a Delaware corporation. ePlus inc. is sometimes referred to in this Quarterly Report on Form 10-Q as "we," "our," "us," "ourselves," or "ePlus." ePlus inc. is a holdi company that through its subsidiaries provides IT solutions that enable organizations to optimize their IT environment and supply chain processes. We also provide consulting, professional and managed services, and complete lifecycle management services, including flexible financing solutions. We focus on state and local governments, middle market and large enterprises in North America and the United Kingdom ("UK").

BASIS OF PRESENTATION — The unaudited condensed consolidated financial statements include the accounts of ePlus inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The accounts of businesses acquired are included in the unaudited condensed consolidated financial statements from the dates of acquisition.

INTERIM FINANCIAL STATEMENTS — The unaudited condensed consolidated financial statements for the three and nine months ended December 31, 2018 and 2017 were prepared by us, without audit, and include all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations, changes in comprehensive income, and cash flows for such periods. Operating results for the three and nine months ended December 31, 2018 and 2017 are not necessarily indicative of results that may be expected for any other interim period, the full fiscal year ending March 31, 2019, or any other future period. These unaudited condensed consolidated financial statements do not include all disclosures required by the accounting principles generally accepted in the United States ("US GAAP") for annual financial statements. Our audited consolidated financial statements are contained in our annual report on Form 10-K for the year ended March 31, 2018 ("2018 Annual Report"), which should be read in conjunction with these interim condensed consolidated financial statements.

USE OF ESTIMATES — The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Estimates are used when accounting for items and matters including, but not limited to, revenue recognition, residual values, vendor consideration, lease classification, goodwill and intangible assets, reserves for credit losses, inventory obsolescence, and the recognition and measurement of income tax assets and other provisions and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

CONCENTRATIONS OF RISK — A substantial portion of our sales are products from Cisco Systems, which were 40% and 39% of our technology segment's net sales for the three months ended December 31, 2018 and 2017, respectively, and 42% and 45% of our technology segment's net sales for the nine months ended December 31, 2018 and 2017, respectively.

SIGNIFICANT ACCOUNTING POLICIES — The significant accounting policies used in preparing these Consolidated Financial Statements were applied on a basis consistent with those reflected in our Consolidated Financial Statements for the year ended March 31, 2018, except for changes from the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), as amended ("ASU 2014-09"). This Update adds Topic 606, Revenue from Contracts with Customers ("Codification Topic 606") to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification"). The updates to our accounting policies from adopting

ASU 2014-09 are provided below.

REVENUE RECOGNITION — We recognize our revenues from the sales of third party products, third party software, third-party services such as maintenance and software support, ePlus professional and managed services, and hosting ePlus proprietary software. We recognize revenue from these sales under the guidance in Codification Topic 606.

The core principle of Codification Topic 606 is that an entity should recognize revenue for the transfer of goods and services equal to an amount it expects to be entitled to receive for those goods and services. We account for a contract under Codification Topic 606 when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are established, the contract has commercial substance, and collectability of consideration is probable.

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Revenues are reported net of sales refunds, including an estimate of future returns based on an evaluation of historical sales returns, current economic conditions, volume, and other relevant factors.

Our contracts with customers may include multiple promises that are distinct performance obligations. For such arrangements, we allocate the transaction price to each performance obligation based on its relative standalone selling price. We determine standalone selling prices using expected cost-plus margin.

We recognize revenue when (or as) we satisfy a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service. Depending on the nature of each performance obligation, this may be at a point in time or over time, as further described below.

We typically invoice our customers for third party products upon shipment, unless our customers lease the equipment through our financing segment, in which case the arrangement is accounted for as a lease in accordance with Codification Topic 840, Leases. We typically invoice our customers for third-party software upon delivery and third-party services at the point of sale, unless our customers finance these assets equipment through our financing segment, in which case we record a financing receivable based on the terms of the arrangement.

Sales of third party products

We are the principal in sales of third party products. As such, we recognize sales on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product recognized as cost of sales. We recognize revenue from these sales at the point in time that control passes to the customer, which is typically upon delivery of the product to the customer.

In some instances, our customers may request that we bill them for a product but retain physical possession of the product until later delivery, commonly known as “bill-and-hold” arrangements. In these transactions, we recognize revenue when the customer has signed a bill-and-hold agreement with us, the product is identified separately as belonging to the customer and, when orders include configuration, such configuration is complete, and the product is ready for delivery to the customer.

We recognize sales of leased equipment within our financing segment when control passes to the customer, which is typically the date of sale.

Sales of third party software

We are typically the principal in sales of third party software. Sales are recognized on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product recognized as cost of sales. We recognize revenue from these sales at the point in time that control passes to the customer, which is typically upon delivery of the software to the customer.

We often sell third party support accompanying third party software. When the third-party software benefits the customer only in conjunction with the accompanying support, such as in sales of anti-virus software and support, we consider the third-party software and support as inputs to a single performance obligation. The third party controls the service as it is transferred to the customer and therefore we are acting as an agent in these transactions. We recognize revenue from these sales on a net basis when our customer and vendor accept the terms and conditions of the arrangement.

Sales of third party maintenance, software support, and services

We are the agent in sales of third party maintenance, software support, and services as the third party controls the service until it is transferred to the customer. We recognize sales on a net basis equal to the selling price to the customer less the acquisition cost. We recognize revenue from these sales when our customer and vendor accept the terms and conditions of the arrangement.

Sales of ePlus professional and managed services

Our ePlus professional services offerings include assessments, project management, and staging, configuration, and integration. Our ePlus managed service offerings range from monitoring and notification to a fully outsourced network management solution. In these arrangements, we satisfy our performance obligation and recognize revenue over time.

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We provide ePlus professional services under both time and materials and fixed price contracts. When services are provided on a time and materials basis, we recognize sales at agreed-upon billing rates as services are performed. When services are provided on a fixed fee basis, we recognize sales over time in proportion to our progress toward complete satisfaction of the performance obligation. We measure progress based on costs incurred in proportion to total estimated costs, commonly referred to as the "cost-to-cost" method.

In arrangements for ePlus managed services, our arrangement is typically a single performance obligation comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e., distinct days of service). We typically recognize sales from these services on a straight-line basis over the period services are provided.

We host ePlus proprietary software, including OneSource IT+, OneSource Procurement, and OneSource Catalog+, for customers as a service. We recognize the transaction price for the hosting services evenly over the hosting period.

Freight and sales tax

We present freight billed to our customers within sales and the related freight charged to us within cost of sales. We present sales tax collected from customers and remittances to governmental authorities on a net basis.

Financing revenue and other

We account for leases to customers in accordance with Codification Topic 840, Leases. Our accounting for leases is different depending on the type of lease. Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate.

We consider whether a lease meets any of the following four criteria as part of classifying the lease at its inception:

- the lease transfers ownership of the property to the lessee by the end of the lease term;
- the lease contains a bargain purchase option;
- the lease term is equal to 75 percent or more of the estimated economic life of the leased property; or
- the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property at the inception of the lease.

If a lease meets any of the four lease classification criteria and gives rise to dealer's profit, we classify the lease as a sales-type lease. For sales-type leases, we recognize sales equal to the present value of the minimum lease payments discounted using the implicit interest rate in the lease and cost of sales equal to carrying amount of the asset being leased and any initial direct costs incurred, less the present value of the unguaranteed residual. Interest income from the lease is recognized in sales over the lease term in our financing segment.

If a lease meets any of the four lease classification criteria, and does not give rise to dealer's profit, we classify the lease as a direct financing lease. For direct financing leases, the difference between our gross investment in the lease and the cost of the leased property is deferred as unearned income and recognized as sales over the lease term.

If a lease meets none of the four lease classification criteria, we classify the lease as an operating lease. For operating leases, we recognize the rent charged on the lease as sales on a straight-line basis ratably over the term of the lease agreement.

We may also finance third-party software and third-party services for our customers, which are classified as notes receivable. We recognize interest on notes receivable in net sales.

Codification Topic 860, Transfers and Servicing 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 secured borrowing. Certain assignments of notes receivable and direct finance and sales-type leases we make on a non-recourse basis meet the requirements for sale accounting set forth by this topic and have therefore been treated in our financial results as sales, where we recognize a net gain or loss on these transactions in sales.

CONTRACT BALANCES — We recognize contract liabilities when cash payments are received or due in advance of our performance.

COSTS OF OBTAINING A CONTRACT — We capitalize costs that are incremental to obtaining customer contracts, predominately sales commissions, and expense them in proportion to each completed contract performance obligation.

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2. RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS —We adopted ASU 2014-09 on April 1, 2018, using the full retrospective method. Under the full retrospective method, we apply the guidance retrospectively to each prior reporting period presented. The impact from the adopting ASU 2014-09 on our consolidated balance sheet as of March 31, 2018, was a decrease in accounts receivable – trade of $1.9 million, an increase in accounts receivable – other of $1.9 million, a decrease in deferred costs of $3.2 million, and a decrease in deferred revenues of $3.2 million. There is no impact to our retained earnings as of March 31, 2018. The impact on our consolidated statement of operations was an increase in net sales and cost of sales by $1.7 million for the three months ended December 31, 2017 and an increase of $8.4 million in net sales and cost of sales for the nine months ended December 31, 2017.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED —In June 2016, the FASB issued ASU 2016-13, Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update requires adoption under a modified retrospective approach and will become effective for us in the quarter ending June 30, 2020. Early adoption is permitted beginning in our quarter ending June 30, 2019. We are currently evaluating the impact of this update on our financial statements.

In November 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The core principle of this update is that a lessee should recognize the assets and liabilities that arise from leases. This update also makes some changes to lessor accounting and aligns key aspects of the lessor accounting model with the revenue recognition standard. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides an additional transition option by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We expect to adopt this update in our quarter ending June 30, 2019 using this new transition option. We anticipate one effect of adopting this update will be recognizing right-of-use assets and corresponding lease liabilities for leases where we are the lessee, primarily comprised of leases for facilities. We are continuing to assess all implications of this update on our financial statements both as a lessee and a lessor.

3. REVENUES

Contract balances

Accounts receivable – trade represents amounts due from contracts with customers. In addition, we had $17.1 million and $28.1 million of receivables from contracts with customers included within financing receivables as of December 31, 2018 and March 31, 2018, respectively. The following table provides the balance of contract liabilities from contracts with customers (in thousands):

Contract liabilities	December 31, 2018	March 31, 2018
Current (included in deferred revenue)	$ 38,539	$ 34,643
Non-current (included in other liabilities)	$ 13,682	$ 12,699

Revenue recognized from the beginning contract liability balance was $7.3 million and $28.2 million for the three and nine months ended December 31, 2018, respectively, and $2.3 million and $57.8 million for the three and nine months ended December 31, 2017, respectively.

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Performance obligations

The following table includes revenue expected to be recognized in the future related to performance obligations, primarily non-cancelable contracts for ePlus managed services, that are unsatisfied or partially unsatisfied at the end of the reporting period, in thousands. The table does not include the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts where we recognize revenue at the amount that we have the right to invoice for services performed.

Remaining three months of fiscal 2019	$11,932
Fiscal 2020	12,892
Fiscal 2021	6,839
Fiscal 2022	1,078
Fiscal 2023	302
Fiscal 2024	2
Total remaining performance obligations	$33,045

4. FINANCING RECEIVABLES AND OPERATING LEASES

Our financing receivables and operating leases consist of assets that we finance for our customers, which we manage as a portfolio of investments. Equipment financed for our customers is accounted for as investments in direct financing, sales-type or operating leases in accordance with Codification Topic 840, Leases. We also finance third-party software, maintenance, and services for our customers, which are classified as notes receivables. Our notes receivables are interest bearing and are often due over a period that corresponds with the terms of the leased products.

FINANCING RECEIVABLES—NET

Our financing receivables-net consist of the following (in thousands):

December 31, 2018	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 69,898	$ 76,825	$ 146,723
Estimated unguaranteed residual value (1)	-	13,180	13,180
Initial direct costs, net of amortization (2)	582	392	974
Unearned income	-	(10,228)	(10,228)
Reserve for credit losses (3)	(536)	(509)	(1,045)
Total, net	$ 69,944	$ 79,660	$ 149,604
Reported as:			
Current	$ 53,150	$ 40,873	$ 94,023
Long-term	16,794	38,787	55,581
Total, net	$ 69,944	$ 79,660	$ 149,604

(1) Includes estimated unguaranteed residual values of $8,407 thousand for direct financing leases, which have been sold and accounted for as sales.

(2) Initial direct costs are shown net of amortization of $313 thousand.

(3) For details on reserve for credit losses, refer to Note 6, “Reserves for Credit Losses.”

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March 31, 2018	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 62,992	$ 65,943	$ 128,935
Estimated unguaranteed residual value (1)	-	11,226	11,226
Initial direct costs, net of amortization (2)	375	334	709
Unearned income	-	(8,251)	(8,251)
Reserve for credit losses (3)	(486)	(640)	(1,126)
Total, net	$ 62,881	$ 68,612	$ 131,493
Reported as:			
Current	$ 39,993	$ 29,943	$ 69,936
Long-term	22,888	38,669	61,557
Total, net	$ 62,881	$ 68,612	$ 131,493

(1) Includes estimated unguaranteed residual values of $6,004 thousand for direct financing leases that have been sold and accounted for as sales.
(2) Initial direct costs are shown net of amortization of $341 thousand.
(3) For details on reserve for credit losses, refer to Note 6, "Reserves for Credit Losses."

OPERATING LEASES—NET

Operating leases—net represents leases that do not qualify as direct financing leases. The components of the operating leases—net are as follows (in thousands):

	December 31, 2018	March 31, 2018
Cost of equipment under operating leases	$ 22,451	$ 15,683
Accumulated depreciation	(9,974)	(8,729)
Investment in operating lease equipment—net (1)	$ 12,477	$ 6,954

(1) Includes estimated unguaranteed residual values of $3,133 thousand and $1,921 thousand as of December 31, 2018 and March 31, 2018, respectively.

TRANSFERS OF FINANCIAL ASSETS

We enter into arrangements to transfer the contractual payments due under financing receivables and operating lease agreements, which are accounted for as sales or secured borrowings in accordance with Codification Topic 860, Transfers and Servicing. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. As of December 31, 2018, and March 31, 2018, we had financing receivables of $68.3 million and $52.0 million, respectively, and operating leases of $8.5 million and $5.3 million, respectively, which were collateral for non-recourse notes payable. See Note 8, "Notes Payable and Credit Facility."

For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which are presented within net sales in the consolidated statement of operations. During each of the three months ended December 31, 2018 and 2017, we recognized net gains of $2.4 million and $1.2 million, respectively, and total proceeds from these sales were $95.2 million and $32.8 million, respectively. During the nine months ended December 31, 2018 and 2017, we recognized net gains of $5.0 million and $4.6 million, respectively, and total proceeds from these sales were $189.2 million and $166.9 million, respectively.

For certain assignments of financial assets, we retain a servicing obligation. For assignments accounted for as sales, we allocate a portion of the proceeds to deferred revenues, which is recognized as we perform the services. As of

December 31, 2018, and March 31, 2018, we had deferred revenue of $0.4 million and $0.5 million, respectively, for servicing. In a limited number of such sales, we indemnified the assignee if the lessee elected to terminate the lease early. As of December 31, 2018, our maximum potential future payments related to such guarantees is $0.3 million. We believe the likelihood of making any such payments to be remote.

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5. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL

The following table summarizes the changes in the carrying amount of goodwill (in thousands):

	Nine Months Ended December 31, 2018			Nine Months Ended December 31, 2017		
	Goodwill	Accumulated Impairment Loss	Net Carrying Amount	Goodwill	Accumulated Impairment Loss	Net Carrying Amount
Beginning Balance	$ 85,297	$ (8,673)	$ 76,624	$ 57,070	$ (8,673)	$ 48,397
Acquisitions	-	-	-	27,996	-	27,996
Foreign currency translations	(223)	-	(223)	153	-	153
Ending Balance	$ 85,074	$ (8,673)	$ 76,401	$ 85,219	$ (8,673)	$ 76,546

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets that are individually identified and separately recognized in business combinations. All our goodwill as of December 31, 2018 and March 31, 2018 is related to our technology reportable segment, which we also determined to be one reporting unit.

We performed our annual test for impairment for fiscal year 2019 as of October 1, 2018. We elected to bypass the qualitative assessment of goodwill and estimate the fair value of our reporting units. The fair value of our technology reporting unit substantially exceeded its carrying value as of October 1, 2018. Our conclusions would not be impacted by a ten percent change in our estimate of the fair value of the reporting unit.

We performed our annual test for impairment for fiscal year 2018 as of October 1, 2017. We performed a qualitative assessment for goodwill and concluded that the fair value of our reporting units, more likely than not, exceeded their respective carrying values as of October 1, 2017.

See Note 16, "Business Combinations" for additional information regarding prior year acquisitions.

OTHER INTANGIBLE ASSETS

Our other intangible assets consist of the following (in thousands):

	December 31, 2018			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount
Customer relationships & other intangibles	$42,368	$ (23,549)	$ 18,819	$41,895	$ (18,634)	$ 23,261
Capitalized software development	6,371	(2,465)	3,906	5,608	(2,567)	3,041
Total	$48,739	$ (26,014)	$ 22,725	$47,503	$ (21,201)	$ 26,302

Customer relationships and capitalized software development costs are amortized over an estimated useful life, which is generally between 3 to 8 years. Trade names and trademarks are amortized over an estimated useful life of 10 years.

Total amortization expense for other intangible assets was $1.7 million and $1.9 million for the three months and $5.3 million and $4.2 million for the nine months ended December 31, 2018 and 2017, respectively. The change in the gross carrying amount of other intangible assets is due to foreign exchange translations.

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6. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses were as follows (in thousands):

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2018	$ 1,538	$ 486	$ 640	$ 2,664
Provision for credit losses	275	50	(131)	194
Write-offs and other	(246)	-	-	(246)
Balance December 31, 2018	$ 1,567	$ 536	$ 509	$ 2,612

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2017	$ 1,279	$ 3,434	$ 679	$ 5,392
Provision for credit losses	165	37	106	308
Write-offs and other	-	(3,020)	(164)	(3,184)
Balance December 31, 2017	$ 1,444	$ 451	$ 621	$ 2,516

Our reserves for credit losses and minimum payments associated with our notes receivables and lease-related receivables disaggregated based on of our impairment method were as follows (in thousands):

	December 31, 2018		March 31, 2018	
	Notes Receivable	Lease-Related Receivables	Notes Receivable	Lease-Related Receivables
Reserves for credit losses:				
Ending balance: collectively evaluated for impairment	$ 474	$ 509	$ 424	$ 640
Ending balance: individually evaluated for impairment	62	-	62	-
Ending balance	$ 536	$ 509	$ 486	$ 640
Minimum payments:				
Ending balance: collectively evaluated for impairment	$ 69,836	$ 76,825	$ 62,930	$ 65,943
Ending balance: individually evaluated for impairment	62	-	62	-
Ending balance	$ 69,898	$ 76,825	$ 62,992	$ 65,943

We place receivables on non-accrual status when events, such as a customer's declaring bankruptcy, occur that indicate a receivable will likely not be collectible. We charge off uncollectible financing receivables when we stop pursuing collection.

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The age of the recorded minimum lease payments and net credit exposure associated with our investment in direct financing and sales-type leases that are past due disaggregated based on our internally assigned credit quality rating ("CQR") were as follows as of December 31, 2018 and March 31, 2018 (in thousands):

	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Unbilled Minimum Lease Payments	Total Minimum Lease Payments	Unearned Income	Non-Recourse Notes Payable	Net Credit Exposure
December 31, 2018										
High CQR	$ 155	$ 22	$ 70	$ 247	$ 128	$ 44,511	$ 44,886	$ (5,497)	$ (26,929)	$ 12,460
Average CQR	36	3	73	112	59	31,768	31,939	(2,639)	(19,381)	9,919
Low CQR	-	-	-	-	-	-	-	-	-	-
Total	$ 191	$ 25	$ 143	$ 359	$ 187	$ 76,279	$ 76,825	$ (8,136)	$ (46,310)	$ 22,379
March 31, 2018										
High CQR	$ 143	$ 40	$ 43	$ 226	$ 224	$ 33,779	$ 34,229	$ (3,743)	$ (17,207)	$ 13,279
Average CQR	109	31	117	257	171	31,286	31,714	(2,749)	(16,012)	12,953
Low CQR	-	-	-	-	-	-	-	-	-	-
Total	$ 252	$ 71	$ 160	$ 483	$ 395	$ 65,065	$ 65,943	$ (6,492)	$ (33,219)	$ 26,232

The age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows (in thousands):

	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Unbilled Notes Receivable	Total Notes Receivable	Non-Recourse Notes Payable	Net Credit Exposure
December 31, 2018									
High CQR	$ 2,905	$ -	$ 560	$ 3,465	$ 1,824	$ 55,048	$ 60,337	$ (42,836)	$ 17,501
Average CQR	152	7	661	820	39	8,640	9,499	(2,513)	6,986
Low CQR	-	-	62	62	-	-	62	-	62
Total	$ 3,057	$ 7	$ 1,283	$ 4,347	$ 1,863	$ 63,688	$ 69,898	$ (45,349)	$ 24,549
March 31, 2018									
High CQR	$ 175	$ 527	$ 423	$ 1,125	$ 3,262	$ 40,896	$ 45,283	$ (30,345)	$ 14,938
Average CQR	42	409	22	473	394	16,780	17,647	(10,424)	7,223
Low CQR	-	-	62	62	-	-	62	-	62
Total	$ 217	$ 936	$ 507	$ 1,660	$ 3,656	$ 57,676	$ 62,992	$ (40,769)	$ 22,223

We estimate losses on our net credit exposure to be between 0% - 5% for customers with highest CQR, as these customers are investment grade or the equivalent of investment grade. We estimate losses on our net credit exposure to be between 2% - 15% for customers with average CQR, and between 15% - 100% for customers with low CQR, which includes customers in bankruptcy.

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7. PROPERTY, EQUIPMENT, OTHER ASSETS AND LIABILITIES

Our property, equipment, other assets and liabilities consist of the following (in thousands):

	December 31, 2018	March 31, 2018
Other current assets:		
Deposits & funds held in escrow	$ 565	$ 16,202
Prepaid assets	6,941	7,031
Other	427	392
Total other current assets	$ 7,933	$ 23,625
Property, equipment and other assets		
Property and equipment, net	$ 6,973	$ 7,510
Deferred costs	9,641	9,302
Other	1,229	2,331
Total other assets - long term	$ 17,843	$ 19,143
Other current liabilities:		
Accrued expenses	$ 6,656	$ 8,339
Accrued income taxes payable	280	175
Contingent consideration - current	5,227	5,806
Other	6,234	19,050
Total other current liabilities	$ 18,397	$ 33,370
Other liabilities:		
Deferred revenue	$ 13,869	$ 12,910
Contingent consideration - long-term	4,013	7,707
Other	-	450
Total other liabilities - long term	$ 17,882	$ 21,067

In the above table, deposits and funds held in escrow relate to financial assets that were sold to third-party banks. In conjunction with those sales, a portion of the proceeds was placed in escrow and will be released to us upon payment of outstanding invoices related to the underlying financing arrangements that were sold.

8. NOTES PAYABLE AND CREDIT FACILITY

Non-recourse and recourse obligations consist of the following (in thousands):

	December 31, 2018	March 31, 2018
Recourse notes payable with interest rate of 4.11% at March 31, 2018.		
Current	$ -	$ 1,343
Non-recourse notes payable secured by financing receivables and investments in operating leases with interest rates ranging from 2.04% to 8.45% as of March 31, 2018 and 3.04% to 8.45% as of December 31, 2018.		
Current	$ 58,106	$ 40,863

Long-term	8,461	10,072
Total non-recourse notes payable	$ 66,567	$ 50,935

Principal and interest payments on non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the customer under the leases or notes receivable that collateralize the notes payable. The weighted average interest rate for our non-recourse notes payable was 4.54% and 4.04%, as of December 31, 2018 and March 31, 2018, respectively. The weighted average interest rate for our recourse notes payable was 4.11% as of March 31, 2018. Under recourse financing, if a customer defaults, the lender has recourse to the customer, the assets serving as collateral, and us. Under non-recourse financing, if a customer defaults, the lender generally only has recourse against the customer and the assets serving as collateral, but not us.

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Our technology segment, through our subsidiary ePlus Technology, inc. and certain of its subsidiaries, finances its operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or ("WFCDF"). This facility provides short-term capital for our technology segment. There are two components of the WFCDF credit facility: (1) a floor plan component, and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $124.6 million and $112.1million as of December 31, 2018 and March 31, 2018, respectively. Under the accounts receivable component, we had no outstanding balances as of December 31, 2018 and March 31, 2018.

As of December 31, 2018, the facility had an aggregate limit of $250 million for the two components, and the accounts receivable component had a sub-limit of $30 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one-half percent.

The credit facility has full recourse to ePlus Technology, inc. and certain of its subsidiaries, and is secured by a blanket lien against all their assets, such as chattel paper, receivables and inventory. Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and ePlus Technology, inc.'s. minimum earnings before interest, taxes, depreciation and amortization ("EBITDA"). We were in compliance with these covenants as of December 31, 2018. In addition, the facility restricts the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans, or advances with certain exceptions for dividends to ePlus inc. The facility also requires that financial statements of ePlus Technology, inc. and ePlus Technology Services, inc. be provided within 45 days at the end of each quarter and 90 days of each fiscal year end, and that other operational reports be provided on a regular basis. Either party may terminate the credit facility with 90 days' advance written notice. We are not, and do not believe that we are reasonably likely to be, in breach of the WFCDF credit facility. In addition, we do not believe that the covenants of the WFCDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The WFCDF facility requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2018, as required. The loss of the WFCDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment, and as an operational function of our accounts payable process.

On July 27, 2017, we executed an amendment to the WFCDF credit facility that temporarily increases the aggregate limit of the two components from $250.0 million to $325.0 million from the date of the agreement through October 31, 2018. The amendment also provides us an election beginning July 1 in each subsequent year to similarly temporarily increase the aggregate limit of the two components to $325.0 million ending the earlier of 90 days following the date of election or October 31 of that same year.

On January 15, 2019, we executed an amendment to the WFCDF credit facility that increases the maximum credit limit of the accounts receivable sub-limit component from $30.0 million to $50 million and modifies certain collateral terms of the credit facility.

Fair Value

As of December 31, 2018, and March 31, 2018, the fair value of our long-term recourse and non-recourse notes payable approximated their carrying value.

9.COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, we may be subject to legal proceedings that arise in the ordinary course of business, and we are also subject to audit by local, state, federal, and international authorities and by various business partners and customers, relating to purchases and sales under various contracts. In the opinion of management, there was not at least a reasonable possibility that the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of legal proceedings and claims brought against us is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

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During the quarter ended December 31, 2018, we received a distribution of $0.9 million from various claims we owned in a customer bankruptcy, which was recognized within other income in our condensed consolidated statements of operations. In January 2019, we received a distribution of $5.4 million from various claims we owned in a customer bankruptcy, which we will recognize in our fourth quarter of fiscal 2019 within other income.

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings available to common shareholders by the basic weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by dividing net earnings available to common shareholders by the basic weighted average number of shares of common stock outstanding plus common stock equivalents during each period.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed on our unaudited consolidated statements of operations (in thousands, except per share data).

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net earnings attributable to common shareholders - basic and diluted	$ 14,864	$ 15,581	$ 48,140	$ 46,225
Basic and diluted common shares outstanding:				
Weighted average common shares outstanding — basic	13,471	13,851	13,467	13,845
Effect of dilutive shares	73	139	125	177
Weighted average shares common outstanding — diluted	13,544	13,990	13,592	14,022
Earnings per common share - basic	$ 1.10	$ 1.12	$ 3.57	$ 3.34
Earnings per common share - diluted	$ 1.10	$ 1.11	$ 3.54	$ 3.30

11. STOCKHOLDERS' EQUITY

Share Repurchase Plan

On April 26, 2018, our board of directors authorized the repurchase up to 500,000 shares of our outstanding common stock over a twelve-month period beginning on May 28, 2018. The plan authorized purchases to be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes.

During the nine months ended December 31, 2018, we purchased 156,087 shares of our outstanding common stock at an average cost of $77.04 per share for a total purchase price of $12.0 million under the share repurchase plan; we also purchased 40,092 shares of common stock at an average cost of $96.23 for a total purchase price of $3.9 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

During the nine months ended December 31, 2017, we purchased 125,605 shares of our outstanding common stock at an average cost of $77.88 per share for a total purchase price of $9.8 million under the share repurchase plan. We also purchased 57,725 shares of common stock at a value of $4.4 million to satisfy tax withholding obligations relating to the vesting of employees' restricted stock.

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12. SHARE-BASED COMPENSATION

Share-Based Plans

As of December 31, 2018, we had share-based awards outstanding under the following plans: (1) the 2008 Non-Employee Director Long-Term Incentive Plan ("2008 Director LTIP"), (2) the 2017 Non-Employee Director Long-Term Incentive Plan ("2017 Director LTIP"), and (3) the 2012 Employee Long-Term Incentive Plan ("2012 Employee LTIP"). Both share-based plans define fair market value as the previous trading day's closing price when the grant date falls on a date the stock was not traded.

Restricted Stock Activity

For the nine months ended December 31, 2018, we granted 8,531 restricted shares under the 2017 Director LTIP, and 69,847 restricted shares under the 2012 Employee LTIP. For the nine months ended December 31, 2017, we granted 535 restricted shares under the 2008 Director LTIP, 5,310 restricted shares under the 2017 Director LTIP, and 66,530 restricted shares under the 2012 Employee LTIP. A summary of the restricted shares is as follows:

	Number of Shares	Weighted Average Grant-date Fair Value
Nonvested April 1, 2018	282,235	$ 51.69
Granted	78,378	$ 94.30
Vested	(133,402)	$ 49.19
Forfeited	(2,814)	$ 79.20
Nonvested December 31, 2018	224,397	$ 67.72

Upon each vesting period of the restricted stock awards, employees are subject to minimum tax withholding obligations. Under the 2012 Employee LTIP, we may purchase a sufficient number of shares due to the participant to satisfy their minimum tax withholding on employee stock awards. To satisfy this tax withholding obligation, the Company purchased 40,092 shares of the awarded common stock shares at a value of $3.9 million, which we included in treasury stock, during the nine months ended December 31, 2018.

Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight-line basis over the requisite service period. There are no additional conditions for vesting other than service conditions. During the three months ended December 31, 2018 and 2017, we recognized $1.9 million and $1.7 million, respectively, of total share-based compensation expense. During the nine months ended December 31, 2018 and 2017, we recognized $5.4 million and $4.9 million, respectively, of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was $11.2 million as of December 31, 2018, which will be fully recognized over the next thirty (30) months.

We also provide our employees with a contributory 401(k) profit sharing plan, to which we may contribute from time to time at our sole discretion. Employer contributions to the plan are fully vested at all times. For the three months ended December 31, 2018 and 2017, our estimated contribution expense for the plan was $0.7 million and $0.5 million, respectively. For the nine months ended December 31, 2018 and 2017, our estimated contribution expense for the plan was $1.8 million and $1.6 million, respectively.

13. INCOME TAXES

We account for our tax positions in accordance with Codification Topic 740, Income Taxes. Under the guidance, we evaluate uncertain tax positions based on the two-step approach. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained in an audit, including resolution of related appeals or litigation processes, if any. For tax positions that are not likely to be sustained upon audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement.

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Our total gross unrecognized tax benefits recorded for uncertain income tax, and interest and penalties thereon, were negligible as of December 31, 2018 and December 31, 2017. We had no additions or reductions to our gross unrecognized tax benefits during the three and nine months ended December 31, 2018. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

We account for the fair values of our assets and liabilities in accordance with Codification Topic 820, Fair Value Measurement and Disclosure. The following table summarizes the fair value hierarchy of our financial instruments (in thousands):

		Fair Value Measurement Using		
	Recorded Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Assets:				
Money market funds	$ 40,241	$ 40,241	$ -	$ -
Liabilities:				
Contingent consideration	$ 9,240	$ -	$ -	$ 9,240
March 31, 2018				
Assets:				
Money market funds	$ 60,385	$ 60,385	$ -	$ -
Liabilities:				
Contingent consideration	$ 13,513	$ -	$ -	$ 13,513

For the three and nine months ended December 31, 2018, we recorded adjustments to operating expenses that increased the fair value of our liability for contingent consideration by $0.7 million and $1.9 million, respectively. For the three and nine months ended December 31, 2018, we made payments of $5.0 million and $6.1 million, respectively, to satisfy the current obligations of the contingent consideration arrangements.

For the three and nine months ended December 31, 2017, we recorded adjustments that increased the fair value of our liability for contingent consideration by $0.7 million, and $12.6 million due to business acquisitions. For the nine months ended December 31, 2017, we made $0.6 million in payments to satisfy the current obligations of the contingent consideration arrangement from our earlier acquisition of Consolidated IT Services.

15. SEGMENT REPORTING

Our operations are conducted through two operating segments that are also both reportable segments. Our technology segment includes sales of IT products, third-party software, third-party maintenance, advanced professional and managed services, and our proprietary software to commercial enterprises, state and local governments, and government contractors. Our financing segment consists of the financing of IT equipment, software, and related services to commercial enterprises, state and local governments, and government contractors. We measure the performance of the segments based on operating income.

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Our reportable segment information was as follows (in thousands):

	Three Months Ended December 31, 2018			December 31, 2017		
	Technology	Financing	Total	Technology	Financing	Total
Contracts with customers	$329,635	$813	$330,448	$330,534	$4,523	$335,057
Financing and other	5,076	10,140	15,216	1,527	7,641	9,168
Net sales	$334,711	$10,953	$345,664	$332,061	$12,164	$344,225
Cost of sales	260,738	2,013	262,751	263,917	3,620	267,537
Gross Profit	73,973	8,940	82,913	68,144	8,544	76,688
Selling, general, and administrative	56,607	3,121	59,728	53,836	3,298	57,134
Depreciation and amortization	2,714	5	2,719	2,893	1	2,894
Interest and financing costs	-	443	443	-	270	270
Operating expenses	59,321	3,569	62,890	56,729	3,569	60,298
Operating income	14,652	5,371	20,023	11,415	4,975	16,390
Other income (expense)			721			(131)
Earnings before tax			$20,744			$16,259
Selected Financial Data - Statement of Cash Flow						
Depreciation and amortization	$2,910	$1,564	$4,474	$3,157	$1,422	$4,579
Purchases of property, equipment and operating lease equipment	$1,496	$545	$2,041	$2,018	$844	$2,862
Selected Financial Data - Balance Sheet						
Total assets	$613,494	$184,695	$798,189	$591,445	$169,068	$760,513

	Nine Months Ended December 31, 2018			December 31, 2017		
	Technology	Financing	Total	Technology	Financing	Total
Contracts with customers	$1,000,776	$2,469	$1,003,245	$1,042,738	$12,254	$1,054,992
Financing and other	15,567	28,427	43,994	10,900	23,052	33,952
Net sales	$1,016,343	$30,896	$1,047,239	$1,053,638	$35,306	$1,088,944
Cost of sales	792,632	5,491	798,123	839,012	8,080	847,092
Gross Profit	223,711	25,405	249,116	214,626	27,226	241,852
Selling, general, and administrative	166,199	8,200	174,399	158,838	9,300	168,138
Depreciation and amortization	8,243	7	8,250	7,084	2	7,086
Interest and financing costs	-	1,403	1,403	-	903	903
Operating expenses	174,442	9,610	184,052	165,922	10,205	176,127

Operating income	49,269	15,795	65,064	48,704	17,021	65,725
Other income (expense)			1,140			(1
Earnings before tax			$66,204			$65,724
Selected Financial Data - Statement of Cash Flow						
Depreciation and amortization	$8,895	$4,446	$13,341	$7,413	$3,911	$11,324
Purchases of property, equipment and operating lease equipment	$4,472	$4,020	$8,492	$4,064	$2,234	$6,298
Selected Financial Data - Balance Sheet						
Total assets	$613,494	$184,695	$798,189	$591,445	$169,068	$760,513

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Technology Segment Disaggregation of Revenue

We analyze net sales for our technology segment by customer end market and by vendor, as opposed to discrete product and service categories, which are summarized below (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Customer end market:				
Technology	$61,549	$73,554	$219,783	$254,310
Telecom, Media & Entertainment	58,377	50,289	144,657	157,201
Financial Services	54,411	63,326	147,048	154,124
SLED	43,846	40,724	173,442	184,380
Healthcare	48,121	53,750	145,652	144,607
All others	68,407	50,418	185,761	159,016
Net sales	334,711	332,061	1,016,343	1,053,638
Financing and other	(5,076)	(1,527)	(15,567)	(10,900)
Revenue from contracts with customers	$329,635	$330,534	$1,000,776	$1,042,738

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Vendor				
Cisco Systems	$131,949	$124,598	$423,249	$463,634
NetApp	12,408	21,712	37,447	47,599
HP Inc. & HPE	22,042	17,458	59,020	74,106
Dell / EMC	17,201	12,879	49,599	43,777
Arista Networks	13,668	13,203	44,139	37,730
Juniper	18,681	13,189	40,341	36,764
All others	118,762	129,022	362,548	350,028
Net sales	334,711	332,061	1,016,343	1,053,638
Financing and other	(5,076)	(1,527)	(15,567)	(10,900)
Revenue from contracts with customers	$329,635	$330,534	$1,000,776	$1,042,738

Financing Segment Disaggregation of Revenue

We analyze our revenues within our financing segment based on the nature of the arrangement, and our revenues from contracts with customers consist of proceeds from the sale of off-lease equipment.

16. BUSINESS COMBINATIONS

SLAIT Consulting, LLC

On January 22, 2019, our subsidiary, ePlus Technology, inc., acquired SLAIT Consulting, LLC (“SLAIT”). SLAIT is an IT consulting and solutions provider with a focus on security advisory and managed services, managed help desk, specialized IT, staffing, and data center solutions. SLAIT is headquartered in Virginia Beach, Virginia and has

locations in Richmond, Virginia, and Charlotte, North Carolina. SLAIT provides consultative services in governance, risk management, and compliance, bespoke help desk and managed services solutions, and has relationships with fast-growing emerging vendors and related sales and engineering capabilities.

Total consideration transferred was $50.7 million, which was paid in cash at closing. As of our filing date, the initial accounting for the business combination is incomplete.

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Integrated Data Storage, LLC acquisition

On September 15, 2017, our subsidiary ePlus Technology, inc. acquired certain assets and assumed certain liabilities of Integrated Data Storage, LLC (“IDS”) though an asset purchase agreement. Headquartered in Oak Brook, Illinois and with offices in downtown Chicago, Illinois and Indianapolis, Indiana, IDS brought us an advanced data center solutions provider focused on cloud enablement and managed services, including its proprietary IDS Cloud, which features enterprise-class technology infrastructure coupled with consulting services to support private, hybrid, and public cloud deployments. The acquisition expanded ePlus’ footprint in the Midwest and enhanced its sales and engineering capabilities in cloud services, disaster recovery and backup as a service, storage, data center, and professional services.

Our sum of total consideration transferred was $38.4 million, consisting of $29.8 million paid in cash at closing, less $1.4 million paid back as a working capital adjustment, plus an additional $10.0 million equal to the acquisition date fair value of consideration that is contingent on the acquired business’ future gross profit. The contingent consideration was calculated using the Monte Carlo simulation model based on our projections of future gross profits. The maximum payout of the contingent consideration is $15.0 million paid over 3 years. Our allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

	Acquisition Date Amount
Accounts receivable and other assets	$ 14,353
Property and equipment	1,620
Identified intangible assets	13,650
Accounts payable and other current liabilities	(12,313)
Total identifiable net assets	17,310
Goodwill	21,088
Total purchase consideration	$ 38,398

The identified intangible assets of $13.7 million consist of customer relationships with an estimated useful life of 8 years. The fair value of acquired receivables equals the gross contractual amounts receivable. We expect to collect all acquired receivables.

We recognized goodwill related to this transaction of $21.1 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill is expected to be deductible for tax purposes. The amount of revenues and earnings of the acquiree since the acquisition date are not material. Likewise, the impact to the revenue and earnings of the combined entity for the current reporting period through the acquisition date had the acquisition date been April 1, 2017, is not material.

OneCloud Consulting Inc.

On May 17, 2017, our subsidiary ePlus Technology, inc., acquired 100% of the stock of OneCloud Consulting, Inc. (“OneCloud”). Based in Milpitas, California, and with locations in India, OneCloud brought us a versatile team of highly trained technology consultants, architects, developers and instructors. Though OneCloud, we enable our customers’ cloud and application strategy via professional services, technical education and software development. The acquisition provides us with additional ability to address customers’ need for cloud-based solutions and infrastructure, including DevOps, OpenStack, and other emerging technologies.

Our sum of total consideration transferred was $10.0 million consisting of $7.9 million paid in cash at closing, net of cash acquired, and $2.1 million equal to the fair value of contingent consideration, calculated using the Monte Carlo simulation model. The maximum payout of the contingent consideration is $4.5 million paid over 3 years.

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Our allocation of the purchase consideration to the assets acquired and liabilities assumed is presented below (in thousands):

	Acquisition Date Amount
Accounts receivable and other assets	$ 488
Identified intangible assets	4,130
Accounts payable and other current liabilities	(1,822)
Total identifiable net assets	2,796
Goodwill	7,189
Total purchase consideration	$ 9,985

The identified intangible assets of $4.1 million consist of customer relationships of $1.7 million with an estimated useful life of 8 years, and internally developed processes of $2.4 million with an estimated useful life of 5 years.

We recognized goodwill related to this transaction of $7.2 million, which was assigned to our technology reporting unit. The goodwill recognized in the acquisition is attributable to the acquired assembled workforce and expected synergies, none of which qualify for recognition as a separate intangible asset. The total amount of goodwill is expected to be deductible for tax purposes. The amount of revenues and earnings of the acquiree since the acquisition date are not material. Likewise, the impact to the revenue and earnings of the combined entity for the current reporting period through the acquisition date had the acquisition date been April 1, 2017, is not material.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion is intended to further the reader's understanding of our consolidated financial condition and results of operations. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our 2018 Annual Report. These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations may contain forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described in Part I, Item 1A, "Risk Factors," in our 2018 Annual Report, Part II and Item 1A. and "Risk Factors" in our Form 10-Q for the three months ended June 30, 2018.

EXECUTIVE OVERVIEW

Business Description

We are a leading solutions provider that delivers actionable outcomes for organizations using IT and consulting solutions to drive business agility and innovation. Leveraging our engineering talent, we assess, plan, deliver, and secure solutions comprised of leading technologies and consumption models aligned with our customers' needs. Our expertise and experience enable ePlus to craft optimized solutions that take advantage of the cost, scale, and efficiency of private, public, and hybrid cloud in an evolving market. We also provide consulting, professional, managed and complete lifecycle management services including flexible financing solutions. We have been in the business of selling, leasing, financing, and managing IT and other assets for more than 28 years.

Our primary focus is to deliver integrated solutions that address our customers' business needs, leveraging the appropriate Cloud, Security and Digital Infrastructure technologies, both on premise and in the cloud. Our approach is to lead with advisory consulting to understand our customers' needs, and then design, deploy and manage solutions aligned to their objectives. Underpinning the broader areas of Cloud, Security, and Digital Infrastructure are specific skills in orchestration and automation, application modernization, DevOps, data management, data visualization, analytics, network modernization, edge compute and other advanced and emerging technologies. These solutions are comprised of class leading technologies from partners such as Arista Networks, Check Point, Cisco Systems, Citrix, Commvault, Dell EMC, F5 Networks, Gigamon, HP Inc., HPE, Juniper Networks, Lenovo, Microsoft, NetApp, NVIDIA, Oracle, Palo Alto Networks, Pure Storage, Quantum, Splunk, and VMware, among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer multi-vendor IT solutions that are optimized for each of our customers' specific requirements. Our hosted, proprietary software solutions are focused on giving our customers more control over their IT supply chain, by automating and optimizing the procurement and management of their owned, leased, and consumption-based assets.

Our scale and financial resources have enabled us to continue investing in engineering and technology resources to stay current with emerging technology trends. Our expertise in core and emerging technologies, buttressed by our robust portfolio of consulting, professional, and managed services has enabled ePlus to remain a trusted advisor for our customers. In addition, we offer a wide range of consumption options including leasing and financing for technology and other capital assets. We believe our lifecycle approach offering of integrated solutions, services, financing, and our proprietary supply chain software is unique in the industry. This broad portfolio enables us to deliver a unique customer experience that spans the continuum from fast delivery of competitively priced products, services, subsequent management and upkeep, through to end-of-life disposal services. This approach permits ePlus to deploy ever-more-sophisticated solutions enabling our customers' business outcomes.

Our go-to-market strategy focuses primarily on diverse end-markets for middle market to large enterprises in North America and the UK For the trailing twelve-month period ended December 31, 2018, the percentage of revenue by customer end market within our technology segment includes technology industry 22%, state and local government and educational institutions ("SLED") 17%, financial services 15%, healthcare 14%, and telecommunications, media

and entertainment 14%. The majority of our sales are generated within the United States ("US"); however, we have the ability to support our customers nationally and internationally including physical locations in the UK, India, and Singapore. Our technology segment accounts for 97% of our net sales, and 74% of our operating income, while our financing segment accounts for 3% of our net sales, and 26% of our operating income for the nine months ended December 31, 2018.

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Key Business Metrics

Our management monitors several financial and non-financial measures and ratios on a regular basis to track the progress of our business. We believe that the most important of these measures and ratios include net sales, gross margin, operating income margin, net earnings, net earnings per common share, adjusted EBITDA, adjusted EBITDA margin, adjusted gross billings, and non-GAAP net earnings per share. We use a variety of operating and other information to evaluate the operating performance of our business, develop financial forecasts, make strategic decisions, and prepare and approve annual budgets.

These key indicators include financial information that is prepared in accordance with US GAAP and presented in our unaudited condensed consolidated financial statements, as well as non-GAAP performance measurement tools. Generally, a non-GAAP financial measure is a numerical measure of a company's performance or financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with US GAAP. Non-GAAP measures used by management may differ from similar measures used by other companies, even when similar terms are used to identify such measures.

Our key business metrics are as follows (dollars in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
Consolidated	2018	2017	2018	2017
Net sales	$345,664	$344,225	$1,047,239	$1,088,944
Gross profit	$82,913	$76,688	$249,116	$241,852
Gross margin	24.0 %	22.3 %	23.8 %	22.2 %
Operating income margin	5.8 %	4.8 %	6.2 %	6.0 %
Net earnings	$14,864	$15,581	$48,140	$46,225
Net earnings margin	4.3 %	4.5 %	4.6 %	4.2 %
Net earnings per common share - diluted	$1.10	$1.11	$3.54	$3.30
Non-GAAP: Net earnings (1)	$17,501	$15,454	$55,712	$55,769
Non-GAAP: Net earnings per common share - diluted (1)	$1.29	$1.10	$4.10	$3.98
Adjusted EBITDA (2)	$25,554	$21,703	$80,804	$79,429
Adjusted EBITDA margin	7.4 %	6.3 %	7.7 %	7.3 %
Purchases of property and equipment used internally	$1,496	$2,018	$4,472	$4,064
Purchases of equipment under operating leases	545	844	4,020	2,234
Total capital expenditures	$2,041	$2,862	$8,492	$6,298
Technology Segment				
Net sales	$334,711	$332,061	$1,016,343	$1,053,638
Adjusted gross billings (3)	$478,447	$465,213	$1,446,603	$1,457,218
Gross profit	$73,973	$68,144	$223,711	$214,626
Gross margin	22.1 %	20.5 %	22.0 %	20.4 %
Operating income	$14,652	$11,415	$49,269	$48,704
Adjusted EBITDA (2)	$20,074	$16,632	$64,699	$62,133

Financing Segment				
Net sales	$10,953	$12,164	$30,896	$35,306
Gross profit	$8,940	$8,544	$25,405	$27,226
Operating Income	$5,371	$4,975	$15,795	$17,021
Adjusted EBITDA (2)	$5,480	$5,071	$16,105	$17,296

(1) Non-GAAP net earnings and non-GAAP net earnings per common share – diluted is based on net earnings calculated in accordance with GAAP, adjusted to exclude other income (expense), share based compensation, and acquisition and integration expenses, and the related tax effects. The presentation of non-GAAP net earnings and non-GAAP net earnings per common share – diluted have been updated to include an adjustment to our tax expense assuming a statutory income tax rate of 21.0% for US operations.

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We use non-GAAP net earnings per common share as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income (expense), share based compensation, and acquisition-related amortization expense in calculating non-GAAP net earnings per common share provides management and investors a useful measure for period-to-period comparisons of our business and operating results by excluding items that management believes are not reflective of our underlying operating performance. Accordingly, we believe that non-GAAP net earnings per common share provide useful information to investors and others to understand and evaluate our operating results. However, our use of non-GAAP information as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. In addition, other companies, including companies in our industry, might calculate similar non-GAAP net earnings and non-GAAP net earnings per common share or similarly titled measures differently, which may reduce their usefulness as comparative measures.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
GAAP: Earnings before tax	$ 20,744	$ 16,259	$ 66,204	$ 65,724
Share based compensation	1,857	1,676	5,418	4,856
Acquisition and integration expense	955	743	2,072	1,762
Acquisition related amortization expense	1,552	1,871	5,035	4,178
Other (income) expense	(721)	131	(1,140)	1
Non-GAAP: Earnings before provision for income taxes	24,387	20,680	77,589	76,521
GAAP: Provision for income taxes	5,880	678	18,064	19,499
Share based compensation	526	484	1,534	1,402
Acquisition and integration expense	270	215	586	509
Acquisition related amortization expense	414	508	1,343	1,108
Other (income) expense	(204)	38	(322)	1
Remeasurement of deferred taxes	-	3,407		3,407
Tax benefit on restricted stock	-	-	672	1,444
Adjustment to U.S. Federal Income Tax rate to 21%	-	(104)		(6,618)
Non-GAAP: Provision for income taxes	6,886	5,226	21,877	20,752
Non-GAAP: Net earnings	$ 17,501	$ 15,454	$ 55,712	$ 55,769
GAAP: Net earnings per common share - diluted	$ 1.10	$ 1.11	$ 3.54	$ 3.30
Non-GAAP: Net earnings per common share - diluted	$ 1.29	$ 1.10	$ 4.10	$ 3.98

(2) We define adjusted EBITDA as net earnings calculated in accordance with GAAP, adjusted for the following: interest expense, depreciation and amortization, share based compensation, acquisition and integration expenses, provision for income taxes, and other income (expense). Segment adjusted EBITDA is defined as operating income calculated in accordance with GAAP, adjusted for interest expense, share based compensation, acquisition and integration expenses, and depreciation and amortization. We consider the interest on notes payable from our financing segment and depreciation expense presented within cost of sales, which includes depreciation on assets financed as operating leases, to be operating expenses. As such, they are not included in the amounts added back to net earnings in the adjusted EBITDA calculation. We provide below a reconciliation of adjusted EBITDA to net earnings, which is the most directly comparable financial measure to this non-GAAP financial measure. Adjusted EBITDA margin is our calculation of adjusted EBITDA divided by net sales.

We use adjusted EBITDA as a supplemental measure of our performance to gain insight into our operating performance. We believe that the exclusion of other income in calculating adjusted EBITDA and adjusted EBITDA

margin provides management and investors a useful measure for period-to-period comparisons of our business and operating results by excluding items that management believes are not reflective of our underlying operating performance. Accordingly, we believe that adjusted EBITDA and adjusted EBITDA margin provide useful information to investors and others to understand and evaluate our operating results. However, our use of adjusted EBITDA and adjusted EBITDA margin as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. In addition, other companies, including companies in our industry, might calculate adjusted EBITDA and adjusted EBITDA margin or similarly titled measures differently, which may reduce their usefulness as a comparative measure.

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	Three Months Ended December 31,		Nine Months Ended December 31,	
Consolidated	2018	2017	2018	2017
Net earnings	$ 14,864	$ 15,581	$ 48,140	$ 46,225
Provision for income taxes	5,880	678	18,064	19,499
Share based compensation	1,857	1,676	5,418	4,856
Acquisition and integration expense	955	743	2,072	1,762
Depreciation and amortization	2,719	2,894	8,250	7,086
Other (income) expense	(721)	131	(1,140)	1
Adjusted EBITDA	$ 25,554	$ 21,703	$ 80,804	$ 79,429
Technology Segment				
Operating income	$ 14,652	$ 11,415	$ 49,269	$ 48,704
Depreciation and amortization	2,714	2,893	8,243	7,084
Share based compensation	1,753	1,581	5,115	4,583
Acquisition and integration expense	955	743	2,072	1,762
Adjusted EBITDA	$ 20,074	$ 16,632	$ 64,699	$ 62,133
Financing Segment				
Operating income	$ 5,371	$ 4,975	$ 15,795	$ 17,021
Depreciation and amortization	5	1	7	2
Share based compensation	104	95	303	273
Adjusted EBITDA	$ 5,480	$ 5,071	$ 16,105	$ 17,296

(3) We define adjusted gross billings as our technology segment net sales calculated in accordance with US GAAP, adjusted to exclude the costs incurred related to sales of third party maintenance, software assurance and subscription/SaaS licenses, and services. We have provided below a reconciliation of adjusted gross billings to technology segment net sales, which is the most directly comparable financial measure to this non-GAAP financial measure. The presentation of adjusted gross billings has been updated to align with net sales for our technology segment.

We use adjusted gross billings as a supplemental measure of our performance to gain insight into the volume of business generated by our technology segment, and to analyze the changes to our accounts receivable and accounts payable. Our use of adjusted gross billings as an analytical tool has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate adjusted gross billings or a similarly titled measure differently, which may reduce its usefulness as a comparative measure.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Technology segment net sales	$334,711	$332,061	$1,016,343	$1,053,638
Costs incurred related to sales of third party maintenance, software assurance and subscription/Saas licenses, and services	143,736	133,152	430,261	$403,579
Adjusted gross billings	$478,447	$465,213	$1,446,604	$1,457,217

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Consolidated Results of Operations

During the three months ended December 31, 2018, net sales increased 0.4%, or $1.4 million, to $345.7 million, compared to $344.2 million for the same period in the prior fiscal year. For the nine months ended December 31, 2018, net sales decreased 3.8%, or $41.7 million to $1.047 billion, compared to $1.089 billion for the same period in the prior fiscal year. For the three months ended December 31, 2018, net sales increased due to higher demand from customers primarily in the SLED, technology, telecom, media & entertainment industries, and financial services, which was partially offset by decreases in demand from the healthcare and other industries. For the nine months ended December 31, 2018, net sales decreased due to lower demand from customers primarily in the SLED, technology, and telecom, media & entertainment industries, which was partially offset by increases in demand from the healthcare, financial services, and other industries. A contributing factor in the year over year change in net sales was a decline in financing revenues for both the three and nine months ended December 31, 2018, as compared to the prior year periods.

Adjusted gross billings increased 2.8%, or $13.2 million, to $478.4 million for the three months ended December 31, 2018 from $465.2 million for the same period in the prior fiscal year. The increase in adjusted gross billings is due the increase in demand from the same customer end markets as those previously noted for the increase in net sales for the three months ended December 31, 2018 over the prior year period. For the nine months ended December 31, 2018, adjusted gross billings decreased 0.7%, or $10.6 million to $1.447 billion, from $1.457 billion for the same period in the prior fiscal year. The reduction in adjusted gross billings for the nine months ended December 31, 2018, is due the decline in demand from the same customer end markets as those previously noted for the decline in net sales.

Consolidated gross profit increased 8.1% to $82.9 million, compared with $76.7 million for the three months ended December 31, 2017. Consolidated gross margins were 24.0% for the three months ended December 31, 2018, which is an increase of 170 basis points compared to 22.3% for the same period in the prior fiscal year. The increase in margins for the three-month period was due to a shift in product mix, as we sold a higher proportion of third party maintenance, software assurance and subscription/SaaS licenses, and services. Also contributing to the gross margin improvement was higher product margins. For the nine months ended December 31, 2018, consolidated gross profit rose 3.0% to $249.1 million, compared with $241.9 million for the same period in the prior fiscal year. Consolidated gross margins were 23.8% for the nine months ended December 31, 2018, an increase of 160 basis points compared to 22.2% for the same period in the prior fiscal year.

Our operating expenses for the three months ended December 31, 2018, increased 4.3% to $62.9 million, as compared to $60.3 million for the prior year period due primarily to higher variable compensation as a result of the increase in gross profit. For the nine months ended December 31, 2018, our operating expenses increased 4.5% to $184.1 million, as compared to $176.1 million, in the same prior year period due, in part, to a full period of salaries and benefits from the acquisition of IDS on September 15, 2017.

Operating income for the three months ended December 31, 2018, increased $3.6 million, or 22.2%, to $20.0 million as compared to $16.4 million. For the three months ended December 31, 2018, the operating income margin increased 100 basis points to 5.8% from 4.8% for the same period in the prior year. Operating income for the nine months ended December 31, 2018, decreased $0.7 million, or 1.0%, to $65.1 million, as compared to $65.7 million for the same period in the prior year. For the nine months ended December 31, 2018, the operating income margin increased 30 basis points to 6.2% from 6.0% for the same period in the prior year.

Our effective tax rate for the current quarter was 28.3%, compared to 4.2% in the prior year quarter which includes a tax benefit of $5.7 million related to the provisional adjustment our deferred tax balance to reflect the new corporate tax rate as well as adjustment of our provision from the beginning of our fiscal year to the new blended tax rate. Due in part to this prior year tax benefit, consolidated net earnings for the three months ended December 31, 2018, decreased 4.6%, or $0.7 million, compared to the prior year's results. Our effective tax rate for the nine months ended

December 31, 2018 was 27.3%, compared to 29.7% for the same period in the prior year, during which time the consolidated net earnings were $48.1 million, an increase of 4.1%, or $1.9 million, compared to the prior year's results.

Adjusted EBITDA increased $3.9 million, or 17.7%, to $25.6 million, and adjusted EBITDA margin increased 110 basis points to 7.4% for the three months ended December 31, 2018, as compared to the prior year period of 6.3%. For the nine months ended December 31, 2018, adjusted EBITDA increased $1.4 million, or 1.7%, to $80.8 million and the adjusted EBITDA margin increased 40 basis points to 7.7% for the nine months ended December 31, 2018, compared to the prior year nine-month period.

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Diluted earnings per share decreased 0.9%, or $0.01, to $1.10 per share for the three months ended December 31, 2018, as compared to $1.11 per share for the same period in the prior year. Non-GAAP diluted earnings per share increased 17.3%, or $0.19, to $1.29 for the three months ended December 31, 2018, as compared to $1.10 for the same period in the prior year.

For the nine months ended December 31, 2018, diluted earnings per share increased 7.3%, or $0.24, to $3.54 per share, as compared to $3.30 per share for the same period in the prior year. Non-GAAP diluted earnings per share increased 3.0% to $4.10 for the nine months ended December 31, 2018, as compared to $3.98 for the same period in the prior year.

Cash and cash equivalents decreased $33.9 million, or 28.7%, to $84.3 million at December 31, 2018 as compared to $118.2 million as of March 31, 2018. The decrease is primarily the result of an increase in our working capital required for the growth in our technology segment, and $15.9 million paid for the purchase of 196,179 shares of our common stock during the nine months ended December 31, 2018. Our cash on hand, funds generated from operations, amounts available under our credit facility, and the possible monetization of our investment portfolio provide sufficient liquidity for our business.

Segment Overview

Our operations are conducted through two segments: technology and financing.

Technology Segment

The technology segment sells IT equipment and software and related services primarily to corporate customers, state and local governments, and higher education institutions on a nationwide and international basis, with geographic concentrations relating to our physical locations. The technology segment also provides Internet-based business-to-business supply chain management solutions for IT products.

Our technology segment derives revenue from the sales of new equipment and service engagements. Included in net sales are revenues derived from performing advanced IT professional and managed services that may be sold together with and integral to third-party products and software. Our service engagements are generally governed by statements of work and are primarily fixed price (with allowance for changes); however, some service agreements are based on time and materials.

Customers who purchase IT equipment and services from us may have customer master agreements, or CMAs, with our company, which stipulate the terms and conditions of the relationship. Some CMAs contain pricing arrangements, and most contain mutual voluntary termination clauses. Our other customers place orders using purchase orders without a CMA in place, or with other documentation customary for the business. Often, our work with state and local governments is based on public bids and our written bid responses.

We endeavor to minimize our cost of sales through incentive programs provided by vendors and distributors. The programs for which we qualify are generally set by our reseller authorization level with the vendor. The authorization level we achieve and maintain governs the types of products we can resell as well as such items as pricing received, funds provided for the marketing of these products and other special promotions. These authorization levels are achieved by us through purchase volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorization levels are costly to maintain, and these programs continually change and, therefore, there is no guarantee of future reductions of costs provided by these vendor consideration programs.

Financing Segment

Our financing segment offers financing solutions to corporations, governmental entities, and educational institutions nationwide, as well as internationally in the UK, Canada, Iceland, and Spain. The financing segment derives revenue from leasing IT and medical equipment and the disposition of that equipment at the end of the lease. The financing segment also derives revenues from the financing of third-party software licenses, software assurance, maintenance and other services.

Financing revenue generally falls into the following three categories:

- Portfolio income: Interest income from financing receivables and rents due under operating leases;
- Transactional gains/losses: Net gains or losses on the sale of financial assets;
- Post-contract earnings: Month-to-month rents; early termination, prepayment, make-whole, or buyout fees; and proceeds from the sale of off-lease (used) equipment. We also recognize revenue from events that occur after the initial sale of a financial asset and remarketing fees from certain residual value investments.

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Fluctuations in Revenues

Our results of operations are susceptible to fluctuations for several reasons, including, without limitation, customer demand for our products and services, supplier costs, changes in vendor incentive programs, interest rate fluctuations, general economic conditions, 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 a sale prior to the expiration of the lease term to the lessee or to a third-party or from post-term events.

We expect to continue to expand by opening new sales locations and hiring additional staff for specific targeted market areas in the near future whenever we can find both experienced personnel and desirable geographic areas. These investments may reduce our results from operations in the short term.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with US GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that alternative accounting policies would have been applied, resulting in a change in financial results. On an ongoing basis, we reevaluate our estimates, including those related to revenue recognition, residual values, vendor incentives, lease classification, goodwill and intangibles, and reserves for credit losses and income taxes specifically relating to uncertain tax positions. We base estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For all such estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates may require adjustment.

Our critical accounting estimates have not changed from those reported in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2018 Annual Report.

SEGMENT RESULTS OF OPERATIONS

The three and nine months ended December 31, 2018, compared to the three and nine months ended December 31, 2017

Technology Segment

The results of operations for our technology segment were as follows (dollars in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net sales	$334,711	$332,061	$1,016,343	$1,053,638
Cost of sales	260,738	263,917	792,632	839,012
Gross profit	73,973	68,144	223,711	214,626
Selling, general, and administrative	56,607	53,836	166,199	158,838
Depreciation and amortization	2,714	2,893	8,243	7,084
Operating expenses	59,321	56,729	174,442	165,922
Operating income	$14,652	$11,415	$49,269	$48,704

Adjusted gross billings	$478,447	$465,213	$1,446,603	$1,457,218
Adjusted EBITDA	$20,074	$16,632	$64,699	$62,133

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Net sales: Net sales for the three months ended December 31, 2018, were $334.7 million compared to $332.1 million during the three months ended December 31, 2017, an increase of 0.8%, or $2.6 million. For the three months ended December 31, 2018, net sales increased due to higher demand from customers primarily in the SLED, technology, telecom, media & entertainment industries, and financial services, which was partially offset by decreases in demand from the healthcare and other industries. For the nine months ended December 31, 2018, net sales were $1.016 billion compared to $1.054 billion during the same period in the prior year, a decrease of 3.5%, or $37.3 million. The decrease in net sales during the nine months ended December 31, 2018, compared to the prior year, was due, in part, to a decrease in demand for products and services from customers in the technology, telecom, media and entertainment, financial services, and SLED customer end markets, partially offset by increased demand by the other industries. A shift in product mix also contributed to the decrease in net sales in proportion to adjusted gross billings for both the three and nine months ended December 31, 2018, as we sold a higher proportion of third-party software assurance, maintenance and services, which are recognized on a net basis.

Adjusted gross billings for the three months ended December 31, 2018, were $478.4 million compared to $465.2 million during the three months ended December 31, 2017, an increase of 2.8%, or $13.2 million, due to the same factors as described previously for net sales. For the nine months ended December 31, 2018, adjusted gross billings were $1.447 billion compared to $1.457 billion during the same period in the prior year, a decrease of 0.7%, or $10.6 million. The decrease in adjusted gross billings during the nine-month period was due, in part, to a decrease in demand for products and services from customers in the technology, telecom, media and entertainment, and SLED industries. Partially offsetting lower demand from these industries was an increase in demand from the healthcare, financial services, and other industries during the nine months ended December 31, 2018, compared to the prior year.

We rely on our vendors to fulfill a large majority of shipments to our customers. As of December 31, 2018, we had open orders of $152.7 million and deferred revenue of $51.6 million. As of December 31, 2017, we had open orders of $170.0 million and deferred revenues of $55.5 million.

We analyze net sales by customer end market and by vendor, as opposed to discrete product and service categories. The percentage of net sales by industry and vendor are summarized below:

	Twelve Months Ended December 31,					
	2018		2017		Change	
Revenue by customer end market:						
Technology	22	%	25	%	(3	%)
Telecom, Media & Entertainment	14	%	14	%	0	%
Financial Services	15	%	15	%	0	%
SLED	17	%	17	%	0	%
Healthcare	14	%	13	%	1	%
All others	18	%	16	%	2	%
Total	100	%	100	%		
Revenue by vendor:						
Cisco Systems	41	%	43	%	(2	%)
NetApp	3	%	5	%	(2	%)
HP Inc. & HPE	5	%	7	%	(2	%)
Dell / EMC	5	%	4	%	1	%
Juniper Networks	4	%	5	%	(1	%)
Arista Networks	4	%	3	%	1	%
All others	38	%	33	%	5	%
Total	100	%	100	%		

Our revenues by customer end market have remained consistent over the year with over 80% of our revenues generated from customers within the five end markets identified above. During the trailing twelve-month period ended December 31, 2018, we had an increase in the percentage total revenues from customers in the healthcare and financial services industries, which were roughly offset by decreases in the percentage of total revenues from SLED, technology, and telecom, media & entertainment end markets over the prior year period. These changes were driven by changes in customer buying cycles and specific IT related initiatives, rather than the acquisition or loss of a customer or set of customers.

The majority of our revenues by vendor are derived from Cisco Systems, a combined HP Inc. and HPE, and NetApp, which in total, declined to 49% for the trailing twelve-month period ended December 31, 2018 from approximately 55% in the trailing twelve-month period ended December 31, 2017, with the greatest decline in the proportional percentage of total revenues in Cisco product sales. The decrease in the percentage of revenues from the top three vendors is due to substantial competition and rapid developments in the IT industry. None of the vendors included within the “other” category exceeded 3% of total revenues.

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Cost of sales: Cost of sales decreased 1.2% and 5.5% for the three and nine months ended December 31, 2018, due to the decrease in net sales, combined with a shift in product mix, as we sold a higher proportion of third-party software assurance, maintenance and services, which are recognized on a net basis. Our gross margin increased 160 basis points to 22.1% for the three months ended December 31, 2018, compared to 20.5% in the same period in the prior year due to a shift in product mix, as we sold a higher proportion of third-party software assurance, maintenance and services for which the revenues are presented on a net basis, as well as lower product margins in the prior year quarter from a large competitively bid project that partially shipped during the period. For the nine months ended December 31, 2018, our gross margin increased 160 basis points to 22.0%, compared to 20.4% the prior year period.

Vendor incentives earned as a percentage of sales increased 20 basis points for the three months ended December 31, 2018, compared to same period in the prior year, but remained unchanged as a percentage of sales for the nine months ended December 31, 2018, compared to same period in the prior year. There are ongoing changes to the incentive programs offered to us by our vendors. Accordingly, if we are unable to maintain the level of vendor incentives we are currently receiving, gross margins may decrease.

Selling, general, and administrative: Selling, general, and administrative expenses of $56.6 million for the three months ended December 31, 2018, increased $2.8 million, or 5.1%, from $53.8 million the prior year. Salaries and benefits increased $2.6 million, or 5.7%, to $47.0 million, compared to $44.5 million during the prior year, primarily due to higher variable compensation of $1.9 million related to the increase in gross profits over the prior year period. Our technology segment had 1,222 employees as of December 31, 2018, a decrease of 14, or 1.1%, from 1,236 employees at December 31, 2017. Professional and other fees increased $0.2 million to $1.6 million due in part to fees related to acquisitions. General and administrative expenses increased $0.1 million to $8.0 million during the three months ended December 31, 2018.

Selling, general, and administrative expenses of $166.2 million for the nine months ended December 31, 2018, increased $7.4 million, or 4.6%, from $158.8 million the prior year. Salaries and benefits increased $6.4 million, or 4.9%, to $137.0 million, compared to $130.6 million during the prior year due to increased costs of personnel as well as higher variable compensation as a result of the increase in gross profit. The increase in salaries was due, to higher variable compensation of $3.0 million due to higher gross profits, and in part, to additional operations costs related to the IDS acquisition, which was completed on September 15, 2017. General and administrative expenses increased $1.0 million, or 4.5%, to $24.3 million during the nine months ended December 31, 2018, compared to $23.3 million the prior year, due to adjustments to the fair value of contingent consideration of $1.9 million this year, up from $0.7 million last year.

Depreciation and amortization: Depreciation and amortization decreased $0.2 million, or 6.2%, to $2.7 million during the three months ended December 31, 2018, compared to $2.9 million in the prior year. For the nine months ended December 31, 2018, depreciation and amortization increased $1.2 million, or 16.4%, to $8.2 million, due to the IDS acquisition as compared to the same period in the prior year.

Segment operating income: As a result of the foregoing, operating income was $14.7 million, an increase of $3.2 million, or 28.3%, for the three months ended December 31, 2018, compared to $11.4 million in the prior year period. For the three months ended December 31, 2018, adjusted EBITDA was $20.1 million, an increase of $3.4 million, or 20.7%, compared to $16.6 million in the prior year period. For the nine months ended December 31, 2018, operating income was $49.3 million, an increase of $0.6 million, or 1.2%, compared to $48.7 million in the prior year period. Adjusted EBITDA was $64.7 million, an increase of $2.6 million, or 4.1%, for the nine months ended December 31, 2018, compared to $62.1 million in the prior year period.

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Financing Segment

The results of operations for our financing segment were as follows (dollars in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net sales	$ 10,953	$ 12,164	$ 30,896	$ 35,306
Cost of sales	2,013	3,620	5,491	8,080
Gross profit	8,940	8,544	25,405	27,226
Selling, general, and administrative	3,121	3,298	8,200	9,300
Depreciation and amortization	5	1	7	2
Interest and financing costs	443	270	1,403	903
Operating expenses	3,569	3,569	9,610	10,205
Operating income	$ 5,371	$ 4,975	$ 15,795	$ 17,021
Adjusted EBITDA	$ 5,480	$ 5,071	$ 16,105	$ 17,296

Net sales: Net sales decreased by $1.2 million, or 10.0%, to $11.0 million for the three months ended December 31, 2018, as compared to prior year results due to lower post contract earnings, and other financing revenues. Post contract earnings decreased $3.4 million due to a decrease in off lease sales. Offsetting this decrease was higher transactional gains of $1.3 million and higher portfolio earnings of $1.1 million or the same period in the prior year. During the three months ended December 31, 2018 and 2017, we recognized net transactional gains of $2.4 million and $1.2 million, and total proceeds from these sales were $95.2 million and $32.8 million, respectively.

For the nine months ended December 31, 2018, net sales decreased by $4.4 million, or 12.5%, to $30.9 million as compared to prior year results due to lower post contract earnings, transactional gains, and other financing revenues, which partially were offset by higher portfolio earnings. Post contract earnings decreased $6.9 million due to the early termination of several large leases in the prior year, which were partially offset by an increase in portfolio earnings of $3.0 million. During the nine months ended December 31, 2018 and 2017, we recognized net transactional gains of $5.0 million and $4.6 million, respectively, and total proceeds from these sales were $189.2 million and $166.9 million, respectively.

At December 31, 2018, we had $162.1 million in financing receivables and operating leases, compared to $147.2 million as of December 31, 2017, an increase of $14.9 million, or 10.1%.

Cost of sales: Cost of sales decreased $1.6 million and $2.6 million for the three and nine months ended December 31, 2018, compared to the same periods in the prior year, respectively, which consists of depreciation expense from operating leases and the cost of off-lease equipment sold. Gross profit increased by 4.6% to $8.9 million, for the three months ended December 31, 2018, compared to the prior year, and decreased by 6.7% to $25.4 million, for the nine months ended December 31, 2018, compared to the prior year.

Selling, general, and administrative: For the three months ended December 31, 2018, selling, general, and administrative expenses decreased $0.2 million, or 5.4%, due to a decrease in variable compensation as a result of the decrease in gross profit, and a decrease in the number of employees. Our financing segment had 43 employees as of December 31, 2018, compared to 48 employees as of December 31, 2017. Selling, general, and administrative expenses decreased by $1.1 million, or 11.8%, for the nine months ended December 31, 2018, due to a decrease in variable compensation as a result of the decrease in gross profit, as well as the change in reserves for credit losses.

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Interest and financing costs increased by 64.1% to $0.4 million, due to an increase in the average total notes payable outstanding and by higher average interest rates over the three months ended December 31, 2018, compared to the same period in the prior year. For the nine months ended December 31, 2018, interest and financing costs increased by 55.4%, or $0.5 million, to $1.4 million compared to the same period in the prior year. Total notes payable was $66.6 million as of December 31, 2018, an increase of $35.1 million or 111.4% compared to $31.5 million as of December 31, 2017. Our weighted average interest rate for non-recourse notes payable was 4.54% and 3.73%, as of December 31, 2018 and 2017, respectively.

Segment operating income: As a result of the foregoing, operating income and adjusted EBITDA increased $0.4 million, or 8.0% and 8.1%, respectively, for the three months ended December 31, 2018, over the prior year period. For the nine months ended December 31, 2018, operating income and adjusted EBITDA decreased $1.2 million or 7.2% and 6.9%, respectively.

Consolidated

Other income: During the quarter ended December 31, 2018, we received a distribution of $0.9 million from various claims we owned in a customer bankruptcy, which was recognized within other income in our condensed consolidated statements of operations.

Income taxes: Our provision for income tax expense was $5.9 million and $18.1 million for the three and nine months ended December 31, 2018, as compared to $0.7 million and $19.5 million for the same periods in the prior year. Our effective income tax rate for the three and nine months ended December 31, 2018, was 28.3% and 27.3%, compared to 4.2% and 29.7% for the three and nine months ended December 31, 2017. During the quarter ended December 31, 2017, we revised our estimated annual tax rate to reflect a change in the US federal statutory rate from 35% to 21%, resulting from legislation that was enacted on December 22, 2017. The rate change was administratively effective at the beginning of our 2018 fiscal year, using a blended rate for the annual period. The blended US statutory tax rate for the 2018 fiscal year was 31.5%, and our total estimated effective tax rate for fiscal year 2018 is 37%. As a result, we recognized an estimated tax benefit in our tax provision of $5.7 million for the quarter ended December 31, 2017 related to the provisional adjustment our deferred tax balance to reflect the new corporate tax rate as well as adjustment of our provision from the beginning of our fiscal year to the new blended tax rate.

Net earnings: The foregoing resulted in net earnings of $14.9 million, a decrease of $0.7 million, or 4.6%, for the three months ended December 31, 2018, as compared to $15.6 million compared to the prior year. For the nine months ended December 31, 2018, net earnings were $48.1 million, an increase of $1.9 million, or 4.1%, as compared to $46.2 million for the same period in the prior year.

Both basic and fully diluted earnings per common share were $1.10 for the three months ended December 31, 2018, a decrease of 1.8% and 0.9%, as compared to $1.12 and $1.11, respectively, for the three months ended December 31, 2017. For the nine months ended December 31, 2018, basic and fully diluted earnings per common share were $3.57 and $3.54, an increase of 6.9% and 7.3%, as compared to $3.34 and $3.30 for the same period in the prior year, respectively.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the three months ended December 31, 2018, was 13.5 million. For the nine months ended December 31, 2018, weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share was 13.5 million and 13.6 million, respectively. Weighted average common shares outstanding used in the calculation of the basic and diluted earnings per common share for the three months ended December 31, 2017, was 13.9 million and 14.0 million, respectively. Weighted average common shares outstanding used in the calculation of the basic and diluted earnings per common share for the nine months ended December 31, 2017, was 13.8 million and 14.0 million, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

Our primary sources of liquidity have historically been cash and cash equivalents, internally generated funds from operations, and borrowings, both non-recourse and recourse. We have used those funds to meet our capital requirements, which have historically consisted primarily of working capital for operational needs, capital expenditures, purchases of equipment for lease, payments of principal and interest on indebtedness outstanding, acquisitions, and the repurchase of shares of our common stock.

Our subsidiary ePlus Technology, inc., and certain of its subsidiaries, which are part of our technology segment, finance their operations with funds generated from operations, and with a credit facility with Wells Fargo Commercial Distribution Finance, LLC or (“WFCDF”). The agreement with WFCDF had an aggregate credit limit of $250 million as of December 31, 2018.

On July 27, 2017, we executed an amendment to the WFCDF credit facility that temporarily increases the aggregate limit of the two components from $250.0 million to $325.0 million from the date of the agreement through October 31, 2017. The amendment also provides us an election beginning July 1 in each subsequent year to similarly temporarily increase the aggregate limit of the two components to $325.0 million ending the earlier of 90 days following the date of election or October 31 of that same year. On July 17, 2018, we elected to temporarily increase the aggregate limit to $325.0 million.

There are two components of this facility: (1) a floor plan component, and (2) an accounts receivable component. After a customer places a purchase order with us and we have completed our credit review, we place an order for the equipment with one of our vendors. Generally, most purchase orders from us to our vendors are first financed under the floor plan component and reflected in “accounts payable—floor plan” in our consolidated balance sheets. Payments on the floor plan component are due on three specified dates each month, generally 30-60 days from the invoice date. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The borrowings and repayments under the floor plan component are reflected as “net borrowings on floor plan facility” in the cash flows from financing activities section of our consolidated statements of cash flows.

The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our consolidated balance sheets. There was no outstanding balance at December 31, 2018, or December 31, 2017. On January 15, 2019, we executed an amendment to the WFCDF credit facility that increases the maximum credit limit of the accounts receivable sub-limit component from $30.0 million to $50 million and modifies certain collateral terms of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash.

Most customer payments in our technology segment are remitted to our lockboxes. Once payments are cleared, the monies in the lockbox accounts are automatically transferred to our operating account on a daily basis. On the due dates of the floor plan component, we make cash payments to WFCDF. These payments from the accounts receivable component to the floor plan component and repayments from our cash are reflected as “net borrowings on floor plan facility” in the cash flows from financing activities section of our consolidated statements of cash flows. We engage in this payment structure to minimize our interest expense and bank fees in connection with financing the operations of our technology segment.

We believe that cash on hand and funds generated from operations, together with available credit under our credit facility, will be sufficient to finance our working capital, capital expenditures, and other requirements for at least the next twelve calendar months.

Our ability to continue to fund our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing as may be required. While at this time we do not anticipate requiring any additional sources of financing to fund operations, if demand for IT products declines, or if our supply of products is delayed or interrupted, our cash flows from operations may be substantially affected.

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Cash Flows

The following table summarizes our sources and uses of cash over the periods indicated (in thousands):

	Nine Months Ended December 31,	
	2018	2017
Net cash provided by operating activities	$ 2,172	$ 48,824
Net cash used in investing activities	(48,009)	(54,793)
Net cash provided by (used) in financing activities	11,801	(27,758)
Effect of exchange rate changes on cash	172	72
Net Decrease in Cash and Cash Equivalents	$ (33,864)	$ (33,655)

Cash flows from operating activities. Cash provided by operating activities totaled $2.2 million during the nine months ended December 31, 2018. Net earnings adjusted for the impact of non-cash items was $60.5 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of $58.3 million, primarily due to net additions to accounts receivables of $56.8 million, due in part to $25.6 million in higher billing in the last 15 days of December 2018 compared to the prior year, salaries and commissions payable, deferred revenues and other liabilities of $8.8 million, inventories of $11.7 million, and financing receivables of $1.1 million, partially offset by reductions in accounts payable of $16.1 million, and deferred costs, other intangible assets and other assets of $4.0 million.

Cash provided by operating activities totaled $48.8 million during the nine months ended December 31, 2017. Net earnings adjusted for the impact of non-cash items was $46.1 million. Net changes in assets and liabilities resulted in an increase of cash and cash equivalents of $2.7 million, primarily due to net reductions in inventories of $43.3 million and increased in accounts payable of $18.4 million, mostly offset by additions to deferred costs, other intangible assets and other assets of $26.2 million financing receivables of $13.0 million, accounts receivables of $10.3 million, and salaries and commissions payable and deferred revenues and other liabilities of $9.5 million.

To manage our working capital, we monitor our cash conversion cycle for our Technology segment, which is defined as days sales outstanding (“DSO”) in accounts receivable plus days of supply in inventory (“DIO”) minus days of purchases outstanding in accounts payable (“DPO”). The following table presents the components of the cash conversion cycle for our Technology segment:

	As of December 31,	
	2018	2017
(DSO) Days sales outstanding (1)	54	52
(DIO) Days inventory outstanding (2)	11	12
(DPO) Days payable outstanding (3)	(39)	