EPLUS INC
Form 10-Q
November 04, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

The number of shares of common stock outstanding as of October 31, 2016 was 7,080,655

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ePlus inc. AND SUBSIDIARIES
Part I. Financial Information:

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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, and downward pressure on prices;
- significant adverse changes in, reductions in, or loss of our largest customer or one or more of our large customers, or vendors;
- the creditworthiness of our customers and our ability to reserve adequately for credit losses;
- reduction of vendor incentives provided to us;
- we offer a comprehensive set of solutions — integrating information technology (IT) product sales, third-party software assurance and maintenance, our advanced professional and managed services, our proprietary software, and financing, and encounter the following challenges, risks, difficulties and uncertainties:
  - managing a diverse product set of solutions in highly competitive markets with a number of key vendors;
  - increasing the total number of customers utilizing 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 retaining highly skilled personnel and vendor certifications;
  - increasing the total number of customers who utilize our managed services and professional services and continuing to enhance our managed services offerings to remain competitive in the marketplace;
  - maintaining our proprietary software and updating our technology infrastructure to remain competitive in the marketplace; and
  - reliance on third parties to perform some of our service obligations;
- changes in the IT industry and/or rapid changes in product offerings, including the proliferation of the cloud, infrastructure as a service and software as a service;
- 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;
- 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 our professional and liability insurance policies coverage may be insufficient to cover a claim;
- disruptions in our IT systems and data and audio communication networks;

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- our ability to secure our 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, or 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 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;
- exposure to changes in, interpretations of, or enforcement trends in legislation; 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.

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

	As of September 30, 2016	As of March 31, 2016
ASSETS	(in thousands, except per share data)	
Current assets:		
Cash and cash equivalents	$ 48,035	$ 94,766
Accounts receivable—trade, net	292,486	234,628
Accounts receivable—other, net	34,873	41,771
Inventories—net	80,502	33,343
Financing receivables—net, current	78,616	56,448
Deferred costs	4,084	6,371
Other current assets	7,403	10,649
Total current assets	545,999	477,976
Financing receivables and operating leases—net	72,106	75,906
Property, equipment and other assets	11,092	8,644
Goodwill and other intangible assets—net	51,697	54,154
TOTAL ASSETS	$ 680,894	$ 616,680
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 90,268	$ 76,780
Accounts payable—floor plan	150,096	121,893
Salaries and commissions payable	15,197	14,981
Deferred revenue	20,844	18,344
Recourse notes payable—current	1,950	2,288
Non-recourse notes payable—current	43,796	26,042
Other current liabilities	18,925	13,118
Total current liabilities	341,076	273,446
Recourse notes payable—long term	667	1,054
Non-recourse notes payable—long term	10,980	18,038
Deferred tax liability—net	2,991	3,001
Other liabilities	5,477	2,263
TOTAL LIABILITIES	361,191	297,802
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		

Preferred stock, $.01 per share par value; 2,000 shares authorized; none issued or outstanding	-	-
Common stock, $.01 per share par value; 25,000 shares authorized; 13,310 issued and 7,080 outstanding at September 30, 2016 and 13,237 issued and 7,365 outstanding at March 31, 2016	133	132
Additional paid-in capital	120,414	117,511
Treasury stock, at cost, 6,230 and 5,872 shares at September 30, 2016 and March 31, 2016, respectively	(158,948)	(129,518)
Retained earnings	358,670	331,224
Accumulated other comprehensive income—foreign currency translation adjustment	(566)	(471)
Total Stockholders' Equity	319,703	318,878
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 680,894	$ 616,680

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except per share data)			
Net sales	$371,462	$336,286	$669,965	$606,152
Cost of sales	289,529	264,365	520,368	475,101
Gross profit	81,933	71,921	149,597	131,051
Professional and other fees	1,735	1,513	3,521	3,031
Salaries and benefits	42,296	35,740	82,094	70,954
General and administrative expenses	7,576	6,385	14,046	11,956
Depreciation and amortization	1,723	1,200	3,498	2,408
Interest and financing costs	400	422	749	975
Operating expenses	53,730	45,260	103,908	89,324
Operating income	28,203	26,661	45,689	41,727
Other income	380	-	380	-
Earnings before tax	28,583	26,661	46,069	41,727
Provision for income taxes	11,808	10,982	18,623	17,234
Net earnings	$16,775	$15,679	$27,446	$24,493
Net earnings per common share—basic	$2.43	$2.16	$3.94	$3.38
Net earnings per common share—diluted	$2.42	$2.15	$3.91	$3.35
Weighted average common shares outstanding—basic	6,909	7,274	6,971	7,249
Weighted average common shares outstanding—diluted	6,942	7,297	7,027	7,310

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 September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
	(amounts in thousands)			
NET EARNINGS	$16,775	$15,679	$27,446	$24,493
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Foreign currency translation adjustments	122	(177)	(95)	(134)
Other comprehensive income (loss)	122	(177)	(95)	(134)
TOTAL COMPREHENSIVE INCOME	$16,897	$15,502	$27,351	$24,359

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30,	
	2016	2015
	(in thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 27,446	$ 24,493
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,832	8,503
Reserve for credit losses, inventory obsolescence and sales returns	849	(123)
Share-based compensation expense	2,903	2,711
Payments from lessees directly to lenders—operating leases	(1,521)	(2,560)
Gain on disposal of property, equipment and operating lease equipment	(1,853)	(517)
Gain on sale of financing receivables	(3,110)	(3,991)
Other	427	6
Changes in:		
Accounts receivable—trade	(58,276)	(40,015)
Accounts receivable—other	(3,517)	(2,270)
Inventories	(47,323)	538
Financing receivables—net	4,255	(1,171)
Deferred costs, other intangible assets and other assets	2,867	11,035
Accounts payable	14,804	(7,184)
Salaries and commissions payable, deferred revenue and other liabilities	12,411	(10,964)
Net cash used in operating activities	$ (43,806)	$ (21,509)
Cash Flows From Investing Activities:		
Proceeds from sale of property, equipment and operating lease equipment	3,588	3,199
Purchases of property, equipment and operating lease equipment	(3,169)	(15,618)
Purchases of assets to be leased or financed	(4,506)	(9,363)
Issuance of financing receivables	(63,961)	(67,623)
Repayments of financing receivables	24,726	35,460
Proceeds from sale of financing receivables	24,674	26,021
Net cash used in investing activities	$ (18,648)	$ (27,924)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

	Six Months Ended September 30,	
	2016	2015
	(in thousands)	
Cash Flows From Financing Activities:		
Borrowings of non-recourse and recourse notes payable	22,940	$ 11,239
Repayments of non-recourse and recourse notes payable	(5,320)	(186)
Repurchase of common stock	(30,492)	(2,475)
Dividends paid	-	(80)
Net borrowings (repayments) on floor plan facility	28,202	27,635
Net cash provided by financing activities	15,330	36,133
Effect of exchange rate changes on cash	393	(33)
Net Increase (Decrease) in Cash and Cash Equivalents	(46,731)	(13,333)
Cash and Cash Equivalents, Beginning of Period	94,766	76,175
Cash and Cash Equivalents, End of Period	$ 48,035	$ 62,842
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 31	$ 50
Cash paid for income taxes	$ 10,282	$ 13,901
Schedule of Non-Cash Investing and Financing Activities:		
Investing Activities		
Proceeds from sale of property, equipment, and operating lease equipment	$ 567	$ 6,726
Purchase of property, equipment, and operating lease equipment	$ (2,332)	$ (8,181)
Purchase of assets to be leased or financed	$ (6,944)	$ (5,615)
Issuance of financing receivables	$ (86,128)	$ (76,876)
Repayment of financing receivables	$ 12,439	$ 8,671
Proceeds from sale of financing receivables	$ 75,739	$ 58,520
Financing Activities		
Borrowing of non-recourse and recourse notes payable	$ 23,010	$ 31,715
Repayments of non-recourse and recourse notes payable	$ (15,305)	$ (16,462)
Vesting of share-based compensation	$ 7,940	$ 7,687

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In	Treasury	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Capital	Stock	Earnings	Income	Total
Balance, April 1, 2016	7,365	$ 132	$ 117,511	$ (129,518)	$ 331,224	$ (471)	$ 318,878
Issuance of restricted stock awards	73	1	-	-	-	-	1
Share-based compensation	-	-	2,903	-	-	-	2,903
Repurchase of common stock	(358)	-	-	(29,430)	-	-	(29,430)
Net earnings	-	-	-	-	27,446	-	27,446
Foreign currency translation adjustment	-	-	-	-	-	(95)	(95)
Balance, September 30, 2016	7,080	$ 133	$ 120,414	$ (158,948)	$ 358,670	$ (566)	$ 319,703

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 information technology solutions which 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 middle market and large enterprises in North America and the United Kingdom.

BASIS OF PRESENTATION — The 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 consolidated financial statements from the dates of acquisition.

INTERIM FINANCIAL STATEMENTS — The unaudited condensed consolidated financial statements for the three and six months ended September 30, 2016 and 2015 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 six months ended September 30, 2016 and 2015 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending March 31, 2017 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 (“U.S. 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, 2016 (“2016 Financial Statements”), which should be read in conjunction with these interim condensed consolidated financial statements.

USE OF ESTIMATES — The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at 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.

The notes to the consolidated financial statements contained in the 2016 Financial Statements include additional discussion of the significant accounting policies and estimates used in the preparation of our consolidated financial statements. There have been no material changes to our significant accounting policies and estimates during the six months ended September 30, 2016.

CONCENTRATIONS OF RISK — A substantial portion of our sales of product and services are from sales of Cisco Systems, Hewlett Packard Enterprise (“HPE”), and NetApp products, which represented approximately 50%, 5% and 6% and 51%, 5% and 5%, respectively, for the three and six months ended September 30, 2016. Sales of Cisco Systems, Hewlett Packard (“HP”), and NetApp products represented approximately 50%, 7%, and 4%, and 50%, 8%, and 4%, respectively, for the three and six months ended September 30, 2015. Any changes in our vendors’ ability to provide products or incentive programs could have a material adverse effect on our business, results of operations and financial condition.

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2. RECENT ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS — In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Stock Compensation. This update simplifies several aspects of the accounting for share-based payment transactions. As permitted, we elected to early adopt this update during the quarter ended June 30, 2016. The amendments requiring recognition of excess tax benefits and deficiencies in the income statement have been applied prospectively resulting in a benefit in the six months ended September 30, 2016 of $0.5 million, or $0.07 per share. We elected to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using a retrospective transition method, and as a result, $1.1 million of excess tax benefits related to share-based awards which were previously classified as cash flows from financing activities in the six months ended September 30, 2015 have been reclassified as cash flows from operating activities. As part of adopting this update, we additionally elected as an accounting policy to account for forfeitures of share-based awards when they occur. As we had previously estimated the forfeiture rate to be zero, there is no cumulative-effect adjustment to retained earnings as a result of our election.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede all current U.S. GAAP on this topic. The FASB subsequently issued ASU 2016-08, Principal versus Agent Considerations, ASU 2016-10, Identifying Performance Obligations and Licensing, and ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, in March 2016, April 2016 and May 2016, respectively, to amend the guidance in ASU 2014-09. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of ASU 2014-09 by one year. Including the one-year deferral, these updates become effective for us in our quarter ending June 30, 2018, and early adoption is permitted for us in our quarter ending June 30, 2017. The update can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the impact of this update on our financial statements and have not yet selected our planned transition approach.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the current U.S. GAAP on this topic. The core principle of this update is that a lessee should recognize the assets and liabilities that arise from leases. This update requires adoption under the modified retrospective approach and becomes effective for us in our quarter ending June 30, 2019. Early adoption is permitted. We are currently evaluating the impact of this update on our financial statements.

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 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 becomes effective for us in our 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.

3. 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 Accounting Standards Codification ("ASC") 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 of time that corresponds with the terms of the leased products.

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FINANCING RECEIVABLES—NET

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

September 30, 2016	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 53,930	$ 81,397	$ 135,327
Estimated unguaranteed residual value (1)	-	18,603	18,603
Initial direct costs, net of amortization (2)	407	546	953
Unearned income	-	(6,627)	(6,627)
Reserve for credit losses (3)	(3,557)	(958)	(4,515)
Total, net	$ 50,780	$ 92,961	$ 143,741
Reported as:			
Current	$ 32,203	$ 46,413	$ 78,616
Long-term	18,577	46,548	65,125
Total, net	$ 50,780	$ 92,961	$ 143,741

(1) Includes estimated unguaranteed residual values of $9,958 thousand for direct financing leases, which have been sold and accounted for as sales.
(2) Initial direct costs are shown net of amortization of $639 thousand.
(3) For details on reserve for credit losses, refer to Note 5, "Reserves for Credit Losses."

March 31, 2016	Notes Receivables	Lease-Related Receivables	Total Financing Receivables
Minimum payments	$ 44,442	$ 66,303	$ 110,745
Estimated unguaranteed residual value (1)	-	12,693	12,693
Initial direct costs, net of amortization (2)	312	475	787
Unearned income	-	(5,543)	(5,543)
Reserve for credit losses (3)	(3,381)	(685)	(4,066)
Total, net	$ 41,373	$ 73,243	$ 114,616
Reported as:			
Current	$ 24,962	$ 31,486	$ 56,448
Long-term	16,411	41,757	58,168
Total, net	$ 41,373	$ 73,243	$ 114,616

(1) Includes estimated unguaranteed residual values of $6,722 thousand for direct financing leases which have been sold and accounted for as sales.
(2) Initial direct costs are shown net of amortization of $612 thousand.
(3) For details on reserve for credit losses, refer to Note 5, "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):

	September 30, 2016	March 31, 2016
Cost of equipment under operating leases	$ 16,844	$ 36,635
Accumulated depreciation	(9,863)	(18,897)
Investment in operating lease equipment—net (1)	$ 6,981	$ 17,738

(1) These totals include estimated unguaranteed residual values of $1,171 thousand and $3,417 thousand as of September 30, 2016 and March 31, 2016, respectively.

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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 September 30, 2016 and March 31, 2016 we had financing receivables of $61.2 million and $36.1 million, respectively, and operating leases of $3.5 million and $13.9 million, respectively, that were collateral for non-recourse notes payable. See Note 7, “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 the three months ended September 30, 2016 and 2015, we recognized net gains of $1.7 million and $2.5 million, respectively, and total proceeds from these sales were $75.4 million and $84.4 million, respectively. During the six months ended September 30, 2016 and 2015, we recognized net gains of $3.2 million and $4.0 million, respectively. The total proceeds from these sales were $129.6 million and $108.7 million for the six months ended September 30, 2016 and 2015, 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. In a limited number of such sales, we indemnified the assignee in the event that the lessee elected to early terminate the lease. As of September 30, 2016, our maximum potential future payments related to such guarantees is $1.1 million. We believe the possibility of making any payments to be remote.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	September 30, 2016			March 31, 2016		
	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization / Impairment Loss	Net Carrying Amount
Goodwill	$50,631	$ (8,673)	$41,958	$50,824	$ (8,673)	$42,151
Customer relationships & other intangibles	20,147	(11,207)	8,940	20,401	(9,193)	11,208
Capitalized software development	2,913	(2,114)	799	2,709	(1,914)	795
Total	$73,691	$ (21,994)	$51,697	$73,934	$ (19,780)	$54,154

GOODWILL

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 of our goodwill as of September 30, 2016 and March 31, 2016 is related to our technology segment.

We test goodwill for impairment on an annual basis, as of the first day of our third fiscal quarter, and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

OTHER INTANGIBLE ASSETS

Customer relationships and capitalized software development costs are amortized over an estimated useful life, which is generally between 3 to 7 years. Trade names and trademarks are amortized over an estimated useful life of 10 years.

Total amortization expense for other intangible assets was $1.1 million and $0.7 million for the three months and $2.2 million and $1.3 million for the six months ended September 30, 2016 and 2015, respectively.

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5. RESERVES FOR CREDIT LOSSES

Activity in our reserves for credit losses for the six months ended September 30, 2016 and 2015 were as follows (in thousands):

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2016	$ 1,127	$ 3,381	$ 685	$5,193
Provision for credit losses	76	176	273	525
Write-offs and other	(31)	-	-	(31)
Balance September 30, 2016	$ 1,172	$ 3,557	$ 958	$5,687

	Accounts Receivable	Notes Receivable	Lease-Related Receivables	Total
Balance April 1, 2015	$ 1,169	$ 3,573	$ 881	$5,623
Provision for credit losses	46	11	(33)	24
Write-offs and other	(119)	-	-	(119)
Balance September 30, 2015	$ 1,096	$ 3,584	$ 848	$5,528

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

	September 30, 2016		March 31, 2016	
	Notes Receivable	Lease-Related Receivables	Notes Receivable	Lease-Related Receivables
Reserves for credit losses:				
Ending balance: collectively evaluated for impairment	$455	$ 808	$279	$ 562
Ending balance: individually evaluated for impairment	3,102	150	3,102	123
Ending balance	$3,557	$ 958	$3,381	$ 685
Minimum payments:				
Ending balance: collectively evaluated for impairment	$50,828	$ 81,228	$41,340	$ 66,161
Ending balance: individually evaluated for impairment	3,102	169	3,102	142
Ending balance	$53,930	$ 81,397	$44,442	$ 66,303

The net credit exposure for the balance evaluated individually for impairment as of September 30, 2016 and March 31, 2016 was $3.2 million, which is related to a customer in bankruptcy. The note and lease receivables associated with this customer are on non-accrual status. We place receivables on nonaccrual status when events, such as a customer's declaring bankruptcy, occur that indicate a receivable will not be collectable. We charge off uncollectable 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 September 30, 2016 and March 31, 2016 (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
September 30,2016										
High CQR	$ 611	$ 183	$ 888	$ 1,682	$ 782	$ 59,251	$ 61,715	$ (3,523)	$ (29,934)	$ 28,258
Average CQR	76	16	59	151	76	19,286	19,513	(1,287)	(5,932)	12,294
Low CQR	-	-	169	169	-	-	169	(19)	-	150
Total	$ 687	$ 199	$ 1,116	$ 2,002	$ 858	$ 78,537	$ 81,397	$ (4,829)	$ (35,866)	$ 40,702
March 31, 2016										
High CQR	$ 575	$ 52	$ 94	$ 721	$ 984	$ 46,157	$ 47,862	$ (2,705)	$ (22,914)	$ 22,243
Average CQR	15	17	78	110	159	18,030	18,299	(1,387)	(8,714)	8,198
Low CQR	-	-	142	142	-	-	142	(19)	-	123
Total	$ 590	$ 69	$ 314	$ 973	$ 1,143	$ 64,187	$ 66,303	$ (4,111)	$ (31,628)	$ 30,564

The age of the recorded notes receivable balance disaggregated based on our internally assigned CQR were as follows as September 30, 2016 and March 31, 2016 (in thousands):

	31-60 Days Past Due	61-90 Days Past Due	Greater than90 Days Past Due	Total Past Due	Current	Unbilled Notes Receivable	Total Notes Receivable	Non-Recourse Notes Payable	Net Credit Exposure
September 30, 2016									
High CQR	$ 191	$ 54	$ 2,220	$ 2,465	$ 583	$ 29,247	$ 32,295	$ (18,214)	$ 14,081
Average CQR	6	-	80	86	2,120	16,327	18,533	(10,457)	8,076
Low CQR	-	-	3,102	3,102	-	-	3,102	-	3,102
Total	$ 197	$ 54	$ 5,402	$ 5,653	$ 2,703	$ 45,574	$ 53,930	$ (28,671)	$ 25,259
March 31, 2016									
High CQR	$ 399	$ 305	$						