EPLUS INC
Form 10-Q
August 10, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

o 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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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 229.405 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 o No o

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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 T

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

The number of shares of common stock outstanding as of July 31, 2009 was 8,224,315.

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ePlus inc. AND SUBSIDIARIES

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Cautionary Language About Forward-Looking Statements

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

- we offer a comprehensive set of solutions—the bundling of our direct IT sales, professional services and financing with our proprietary software, and may encounter some of the challenges, risks, difficulties and uncertainties frequently faced by similar companies, such as:
- managing a diverse product set of solutions in highly competitive markets;
- increasing the total number of customers utilizing bundled 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;
- integrating with external IT systems, including those of our customers and vendors; and
- continuing to enhance our proprietary software and update our technology infrastructure to remain competitive in the marketplace.
- our ability to hire and retain sufficient qualified personnel;
- a decrease in the capital spending budgets of, or delay of technology purchases by, our customers or potential customers;
- our ability to protect our intellectual property;
- the creditworthiness of our customers;
- reduction of vendor incentive programs;
- our ability to raise capital, maintain, or increase as needed, our lines of credit or floor planning facilities, or obtain non-recourse financing for our transactions;
- our ability to realize our investment in leased equipment;
- our ability to reserve adequately for credit losses; and
- significant adverse changes in, reductions in, or losses of relationships with major customers or vendors.

We cannot be certain that our business strategy will be successful or that we will successfully address these and other challenges, risks and uncertainties. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	As of June 30, 2009	As of March 31, 2009
ASSETS	(in thousands)	
Cash and cash equivalents	$ 103,323	$ 107,788
Accounts receivable—net	85,253	82,734
Notes receivable	4,013	2,632
Inventories—net	13,801	9,739
Investment in leases and leased equipment—net	123,260	119,256
Property and equipment—net	3,014	3,313
Other assets	15,696	16,809
Goodwill	21,601	21,601
TOTAL ASSETS	$ 369,961	$ 363,872
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable—equipment	$ 6,940	$ 2,904
Accounts payable—trade	19,262	18,833
Accounts payable—floor plan	57,182	45,127
Accrued expenses and other liabilities	29,341	33,588
Income taxes payable	1,715	912
Recourse notes payable	102	102
Non-recourse notes payable	75,061	84,977
Deferred tax liability	2,957	2,957
Total Liabilities	192,560	189,400
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $.01 par value; 25,000,000 shares authorized; 11,618,272 issued and 8,201,618 outstanding at June 30, 2009 and 11,504,167 issued and 8,088,513 outstanding at March 31, 2009	116	115

Additional paid-in capital		80,982		80,055
Treasury stock, at cost, 3,416,591 and 3,415,654 shares, respectively		(37,240)		(37,229)
Retained earnings		133,353		131,452
Accumulated other comprehensive income—foreign currency translation adjustment		190		79
Total Stockholders' Equity		177,401		174,472
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	369,961	$	363,872

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30, 2009	2008
	(amounts in thousands, except shares and per share data)	
REVENUES		
Sales of product and services	$ 140,450	$ 165,759
Sales of leased equipment	1,488	1,265
	141,938	167,024
Lease revenues	8,075	11,625
Fee and other income	2,407	3,637
	10,482	15,262
TOTAL REVENUES	152,420	182,286
COSTS AND EXPENSES		
Cost of sales, product and services	120,571	143,717
Cost of leased equipment	1,410	1,226
	121,981	144,943
Direct lease costs	2,548	3,794
Professional and other fees	1,817	2,545
Salaries and benefits	17,925	19,464
General and administrative expenses	3,506	3,788
Interest and financing costs	1,305	1,485
	27,101	31,076
TOTAL COSTS AND EXPENSES (1)	149,082	176,019
EARNINGS BEFORE PROVISION FOR INCOME TAXES	3,338	6,267
PROVISION FOR INCOME TAXES	1,437	2,574
NET EARNINGS	$ 1,901	$ 3,693
NET EARNINGS PER COMMON SHARE—BASIC	$ 0.23	$ 0.45
NET EARNINGS PER COMMON SHARE—DILUTED	$ 0.23	$ 0.43
WEIGHTED AVERAGE SHARES OUTSTANDING—BASIC	8,147,685	8,253,552

WEIGHTED AVERAGE SHARES OUTSTANDING—DILUTED	8,415,531	8,580,659

(1) Includes amounts to related parties of $283 and $278 for the three months ended June 30, 2009 and 2008, respectively.

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended June 30, 2009	2008
	(in thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 1,901	$ 3,693
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	3,071	4,290
Reserves for credit losses and sales returns	101	17
Provision for inventory allowances and inventory returns	166	96
Share-based compensation expense	56	31
Excess tax benefit from exercise of stock options	(82)	(66)
Tax benefit of stock options exercised	129	97
Payments from lessees directly to lenders—operating leases	(2,001)	(2,835)
Loss on disposal of property and equipment	4	8
Gain on sale or disposal of operating lease equipment	204	(372)
Increase in cash value of officers' life insurance	(4)	-
Changes in:		
Accounts receivable—net	(3,035)	(2,431)
Notes receivable	(1,381)	(5,805)
Inventories—net	(4,228)	455
Investment in direct financing and sale-type leases—net	(15,507)	(9,274)
Other assets	1,351	(5,411)
Accounts payable—equipment	4,012	(501)
Accounts payable—trade	391	3,011
Salaries and commissions payable, accrued expenses and other liabilities	(3,474)	3,266
Net cash used in operating activities	(18,326)	(11,731)
Cash Flows From Investing Activities:		
Proceeds from sale or disposal of operating lease equipment	517	750
Purchases of operating lease equipment	(395)	(1,302)
Purchases of property and equipment	(167)	(231)
Premiums paid on officers' life insurance	(79)	(79)
Cash used in acquisition, net of cash acquired	-	(364)
Net cash used in investing activities	(124)	(1,226)

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ePlus inc. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(UNAUDITED)

	Three Months Ended June 30, 2009	2008
Cash Flows From Financing Activities:	(in thousands)	
Borrowings:		
Non-recourse	2,508	16,299
Repayments:		
Non-recourse	(1,210)	(1,757)
Repurchase of common stock	(10)	-
Proceeds from issuance of capital stock through option exercise	743	343
Excess tax benefit from exercise of stock options	82	66
Net borrowings on floor plan facility	12,055	1,420
Net cash provided by financing activities	14,168	16,371
Effect of Exchange Rate Changes on Cash	(183)	11
Net (Decrease) Increase in Cash and Cash Equivalents	(4,465)	3,425
Cash and Cash Equivalents, Beginning of Period	107,788	58,423
Cash and Cash Equivalents, End of Period	$ 103,323	$ 61,848
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 123	$ 141
Cash paid for income taxes	$ 759	$ 2,432
Schedule of Non-Cash Investing and Financing Activities:		
Purchase of property and equipment included in accounts payable	$ 117	$ 19
Purchase of operating lease equipment included in accounts payable	$ 20	$ 13
Principal payments from lessees directly to lenders	$ 11,257	$ 12,842

See Notes to Unaudited Condensed Consolidated Financial Statements.

ePlus inc. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Unaudited Condensed Consolidated Financial Statements of ePlus inc. and subsidiaries and notes thereto included herein are unaudited and have been prepared by us, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. All adjustments made were of a normal recurring nature.

Certain information and note disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to SEC rules and regulations.

These interim financial statements should be read in conjunction with our Consolidated Financial Statements and Notes thereto contained in our Annual Report on Form 10-K for the year ended March 31, 2009, which was filed on June 16, 2009. Operating results for the interim periods are not necessarily indicative of results for an entire year. A detailed description of the Company’s significant accounting policies can be found in the audited financial statements for the fiscal year ended March 31, 2009, included in the Company’s Annual Report on Form 10-K. There have been no other significant changes to the accounting policies that were included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

PRINCIPLES OF CONSOLIDATION — 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.

SUBSEQUENT EVENTS – Management has evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

COMPREHENSIVE INCOME — Comprehensive income consists of net income and foreign currency translation adjustments. For the three months ended June 30, 2009, other comprehensive income was $112 thousand, and net income was $1.9 million. This resulted in total comprehensive income of $2.0 million for the three months ended June 30, 2009. For the three months ended June 30, 2008, other comprehensive income was $11 thousand, and net income was $3.7 million. This resulted in total comprehensive income of $3.7 million for the three months ended June 30, 2008.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS — In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2"), which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. On April 1, 2009, we adopted FSP No. 157-2 and SFAS No. 157 as it applies to those non-financial assets and liabilities. The adoption did not have a material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”), which replaces SFAS No. 141. SFAS No. 141R (i) applies to all transactions in which an entity obtains control of one or more businesses, including those without the transfer of consideration, (ii) defines the acquirer as the entity that obtains control on the acquisition date, (iii) requires the measurement at fair value of the acquired assets, assumed liabilities and noncontrolling interest, (iv) requires that the acquisition and restructuring related costs be recognized separately from the business combinations, and (v) requires that goodwill be recognized as of the acquisition date, measured as residual, which in most cases will result in the excess of consideration plus acquisition-date fair value of noncontrolling interest over the fair values of identifiablenet assets.   In addition, under SFAS No. 141R, “negative goodwill,” in which consideration given is less than the acquisition-date fair value of identifiable net assets, will be recognized as a gain to the acquirer. SFAS No. 141R is applied prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS No. 141R on April 1, 2009. The adoption of SFAS No. 141R did not impact our financial statements for prior periods. Impact of the adoption of SFAS No. 141R for financial statements in the future periods will depend on the nature of acquisitions completed after April 1, 2009.

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In April 2009, the FASB issued Staff Position ("FSP") No. 141 R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," ("FSP 141R-1"). FSP 141R-1 amends SFAS No. 141R by establishing a set of criteria to account for assets and liabilities arising from contingencies in business combinations. Under FSP 141R-1, an acquirer is required to recognize, at fair value, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, "Accounting for Contingencies," and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss – an interpretation of FASB Statement No. 5." We adopted FSP 141R-1 on April 1, 2009. The adoption of FSP 141R-1 did not impact our financial statements for prior periods. Impact of the adoption of SFAS No. 141R for financial statements in the future periods will depend on the nature of acquisitions completed after April 1, 2009.

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Asset."("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. FSP No. 142-3 (i) requires companies to consider whether renewal can be completed without substantial cost or material modification of the existing terms and conditions associated with the asset and (ii) replaces the previous useful life criteria with a new requirement-that an entity consider its own historical experience in renewing similar arrangements. If historical experience does not exist, then we would consider market participant assumptions regarding renewal including highest and best use of the asset by a market participant and adjustments for other entity-specific factors included in SFAS No. 142. We adopted FSP No. 142-3 on April 1, 2009. The adoption of FSP No. 142-3 did not have a material impact on our financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 require companies to disclose in interim financial statements the fair value of financial instruments within the scope of FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments." The fair-value information disclosed in the footnotes must be presented together with the related carrying amount, making it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the balance sheet. FSP FAS 107-1 and APB 28-1 also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009. We adopted the disclosure requirements of FSP FAS 107-1 and APB 28-1 for the quarter ended June 30, 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on our financial statements.

In November 2008, the FASB ratified EITF No. 08-7, "Accounting for Defensive Intangible Assets" ("EITF 08-7"). EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 was effective for us on April 1, 2009. The adoption of EITF 08-7 did not have a material impact on our financial statements; however, EITF 08-7 could have a material effect on the way we account for intangible assets acquired in future acquisitions. Impact of the adoption of EITF 08-7 for financial statements in the future periods will depend on the nature of intangible assets acquired in acquisitions completed after April 1, 2009.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 will be effective for the interim or annual period ending after June 15, 2009 and will be applied prospectively. We adopted SFAS No. 165 for the quarter ended June 30, 2009. SFAS No. 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. We have evaluated subsequent events through the time of filing these financial statements with the SEC on August 10, 2009.

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RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED —In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 establishes the FASB Accounting Standards Codification (“Codification”) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification. We do not expect the adoption of SFAS 168 to have a material impact on our business, results of operations, financial condition or cash flows.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140” (“SFAS No. 166”), which removes the concept of a qualifying special-purpose entity from FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” (“SFAS No. 140”). This Statement clarifies the determination on whether a transferor and all of the entities included in the transferor’s financial statements being presented have surrendered control over the transferred financial assets. That determination must consider the transferor’s continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. SFAS No. 166 will be effective for interim and annual reporting periods beginning after November 15, 2009. We are currently evaluating the future impact SFAS No. 166 will have on our consolidated results of operations or financial condition.

2. INVESTMENT IN LEASES AND LEASED EQUIPMENT—NET

Investment in leases and leased equipment—net consists of the following:

	As of	
	June 30, 2009	March 31, 2009
	(in thousands)	
Investment in direct financing and sales-type leases—net	$103,005	$96,741
Investment in operating lease equipment—net	20,255	22,515
	$123,260	$119,256

INVESTMENT IN DIRECT FINANCING AND SALES-TYPE LEASES—NET

Our investment in direct financing and sales-type leases—net consists of the following:

	As of	
	June 30, 2009	March 31, 2009
	(in thousands)	
Minimum lease payments	$101,205	$93,840
Estimated unguaranteed residual value (1)	12,535	13,001
Initial direct costs, net of amortization (2)	826	859

Less: Unearned lease income	(9,963)	(9,360)
Reserve for credit losses	(1,598)	(1,599)
Investment in direct financing and sales-type leases—net	$103,005	$96,741

(1) Includes estimated unguaranteed residual values of $2,234 thousand and $1,790 thousand as of June 30, 2009 and March 31, 2009, respectively, for direct-financing leases accounted for under SFAS No. 140.
(2) Initial direct costs are shown net of amortization of $1,041 thousand and $940 thousand as of June 30, 2009 and March 31, 2009, respectively.

Our net investment in direct financing and sales-type leases is collateral for non-recourse and recourse equipment notes, if any.

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INVESTMENT IN OPERATING LEASE EQUIPMENT—NET

Investment in operating lease equipment—net primarily represents leases that do not qualify as direct financing leases or are leases that are short-term renewals on a month-to-month basis. The components of the net investment in operating lease equipment are as follows:

	As of June 30, 2009	As of March 31, 2009
	(in thousands)	
Cost of equipment under operating leases	$ 51,736	$ 53,227
Less: Accumulated depreciation and amortization	(31,481)	(30,712)
Investment in operating lease equipment—net (1)	$ 20,255	$ 22,515

(1) Includes estimated unguaranteed residual values of $13,653 thousand and $14,178 thousand as of June 30, 2009 and March 31, 2009, respectively, for operating leases.

During the three months ended June 30, 2009 and 2008, we sold portions of our lease portfolio. The sales were reflected on our Unaudited Condensed Consolidated Financial Statements as sales of leased equipment totaling approximately $1.5 million and $1.3 million, and cost of leased equipment of $1.4 million and $1.2 million for the three months ended June 30, 2009 and 2008, respectively. There was a corresponding reduction of investment in leases and lease equipment—net of $1.4 million and $1.2 million at June 30, 2009 and 2008, respectively.

3. GOODWILL

Our annual impairment test for goodwill is performed during the third quarter of our fiscal year, or when events or circumstances indicate there might be impairment, and follow the two-step proces