

GENERAL ELECTRIC CAPITAL CORP

Form 10-Q

October 26, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark

One)

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

For the quarterly period ended September 30, 2004

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 1-6461

GENERAL ELECTRIC CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

13-1500700

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(State or other jurisdiction of incorporation or  
organization)

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(I.R.S. Employer Identification No.)

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260 Long Ridge Road, Stamford, CT

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06927

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(Address of principal executive offices)

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(Zip Code)

(Registrant's telephone number, including area code) (203) 357-4000

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(Former name, former address and former fiscal year,  
if changed since last report)

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 ☐

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

At October 25, 2004, 3,985,403 shares of voting common stock, which constitutes all of the outstanding common equity, with a par value of \$4.00 per share were outstanding.

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

(1)

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### Forward-Looking Statements

This document contains "forward-looking statements" that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties arise from the behavior of financial markets, including fluctuations in interest rates and commodity prices; from future integration of acquired businesses; from future financial performance of major industries which we serve including, without limitation, the air and rail transportation, energy generation, real estate and healthcare industries; from unanticipated loss development in our insurance businesses; and from numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive or regulatory nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.



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## Part I. Financial Information

## Item 1. Financial Statements

Condensed Statement of Current and Retained Earnings  
General Electric Capital Corporation and consolidated affiliates  
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
(In millions)	2004	2003	2004	2003
Revenues from services (note 8)	\$ 13,950	\$ 13,554	\$ 40,987	\$ 37,490
Sales of goods	706	527	2,010	1,582
Total revenues	14,656	14,081	42,997	39,072
Interest	2,622	2,489	7,950	7,301
Operating and administrative	4,526	4,074	13,915	11,300
Cost of goods sold	674	459	1,926	1,361
Insurance losses and policyholder and annuity benefits	1,535	2,243	5,074	6,555
Provision for losses on financing receivables	782	1,023	2,738	2,700
Depreciation and amortization	1,491	1,197	4,332	3,387
Minority interest in net earnings of consolidated affiliates	116	22	220	68
Total costs and expenses	11,746	11,507	36,155	32,672
Earnings before income taxes and accounting change	2,910	2,574	6,842	6,400
Provision for income taxes	(660)	(573)	(1,363)	(1,177)
Earnings before accounting change	2,250	2,001	5,479	5,223
Cumulative effect of accounting change		(339)		(339)
Net earnings	2,250	1,662	5,479	4,884
Dividends	(234)	(1,933)	(2,095)	(2,283)
Retained earnings at beginning of period	30,813	29,896	29,445	27,024
Retained earnings at end of period	\$ 32,829	\$ 29,625	\$ 32,829	\$ 29,625

See "Notes to Condensed, Consolidated Financial Statements."

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Condensed Statement of Financial Position  
General Electric Capital Corporation and consolidated affiliates

(In millions)	September 30, 2004	December 31, 2003
	(Unaudited)	
Cash and equivalents	\$ 5,307	\$ 9,719
Investment securities	78,652	94,046
Financing receivables net (note 5)	250,609	245,295
Insurance receivables	27,115	12,436
Other receivables net	22,132	16,529
Inventories	203	197
Buildings and equipment, less accumulated amortization of \$20,001 and \$16,587	45,095	38,621
Intangible assets (note 6)	24,419	22,610
Other assets	71,075	66,975
Total assets	\$ 524,607	\$ 506,428
Borrowings (note 7)	\$ 320,210	\$ 311,474
Accounts payable	16,393	14,231
Insurance liabilities, reserves and annuity benefits	101,489	100,449
Other liabilities	21,472	21,110
Deferred income taxes	10,122	10,411
Total liabilities	469,686	457,675
Minority interest in equity of consolidated affiliates	6,043	2,512
Capital stock	19	19
Additional paid-in capital	14,560	14,236
Retained earnings	32,829	29,445
Accumulated gains (losses) net		
(a)		
Investment securities	466	1,538
Currency translation adjustments	2,298	2,621
Derivatives qualifying as hedges	(1,294)	(1,618)
Total shareowner's equity	48,878	46,241
Total liabilities and equity	\$ 524,607	\$ 506,428

(a)

The sum of accumulated gains (losses) on investment securities, currency translation adjustments and derivatives qualifying as hedges constitutes "Accumulated nonowner changes other than earnings," and was \$1,470 million and \$2,541 million at September 30, 2004 and December 31, 2003, respectively.

See "Notes to Condensed, Consolidated Financial Statements."

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Condensed Statement of Cash Flows  
General Electric Capital Corporation and consolidated affiliates

(Unaudited)

(In millions)	Nine months ended September 30	
	2004	2003
Cash Flows Operating Activities		
Net earnings	\$ 5,479	\$ 4,884
Adjustments to reconcile net earnings to cash provided from operating activities		
Cumulative effect of accounting change		339
Provision for losses on financing receivables	2,738	2,700
Depreciation and amortization	4,332	3,387
Increase in accounts payable	2,918	2,916
Increase in insurance liabilities, reserves and annuity benefits	2,747	875
All other operating activities	919	1,631
Cash from operating activities	19,133	16,732
Cash Flows Investing Activities		
Increase in loans to customers	(208,289)	(164,832)
Principal collections from customers loans	209,433	162,018
Investment in equipment for financing leases	(14,834)	(15,050)
Principal collections from customers financing leases	17,311	16,808
Net change in credit card receivables	(3,156)	1,835
Buildings and equipment:		
additions	(7,673)	(4,973)
dispositions	3,648	3,920
Payments for principal businesses purchased	(16,200)	(9,167)
Purchases of securities by insurance and annuity businesses	(15,109)	(29,616)
Dispositions of securities by insurance and annuity businesses	12,802	28,122
All other investing activities	(911)	(3,588)
Cash used for investing activities	(22,978)	(14,523)
Cash Flows Financing Activities		
Net decrease in borrowings (maturities 90 days or less)	(7,240)	(16,034)

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Newly issued debt:		
Short-term (91-365 days)	1,001	1,162
Long-term senior	41,837	43,886
Non-recourse, leveraged lease	175	375
Repayments and other debt reductions:		
Short-term (91-365 days)	(28,571)	(27,813)
Long-term senior	(2,514)	(2,915)
Non-recourse, leveraged lease	(502)	(585)
Proceeds from sales of investment contracts	12,261	11,725
Redemption of investment contracts	(14,919)	(11,769)
Dividends paid	(2,095)	(2,283)
	<hr/>	<hr/>
Cash used for financing activities	(567)	(4,251)
	<hr/>	<hr/>
Decrease in cash and equivalents	(4,412)	(2,042)
	<hr/>	<hr/>
Cash and equivalents at beginning of year	9,719	6,983
	<hr/>	<hr/>
Cash and equivalents at September 30	\$ 5,307	\$ 4,941
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See "Notes to Condensed, Consolidated Financial Statements."

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### Notes to Condensed, Consolidated Financial Statements (Unaudited)

1. The accompanying condensed, consolidated quarterly financial statements represent the consolidation of General Electric Capital Corporation and all of our affiliates (GECC). As described in our Annual Report on Form 10-K for the year ended December 31, 2003, we reorganized our businesses on January 1, 2004, around markets and customers. On March 30, 2004, we provided the required reclassified prior-period information about this reorganization in a Form 8-K. We have reclassified certain prior-period amounts to conform to the current period's presentation.

2. The condensed, consolidated quarterly financial statements and notes thereto are unaudited. These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of the results of operations, financial position and cash flows. The results reported in these condensed, consolidated quarterly financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. We label our quarterly information using a calendar convention, that is, first quarter is labeled as ending on March 31, second quarter as ending on June 30, and third quarter as ending on September 30. It is our longstanding practice to establish interim quarterly closing dates using a fiscal calendar, which requires our businesses to close their books on a Saturday. The effects of this practice are modest and only exist within a reporting year. The fiscal closing calendar from 1993 through 2013 is available on our Web site, [www.ge.com/en/company/investor/secreports.htm](http://www.ge.com/en/company/investor/secreports.htm).

3. We adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46R, *Consolidation of Variable Interest Entities (Revised)*, on January 1, 2004. This accounting change added \$1.5 billion of assets and \$1.1 billion of liabilities to our consolidated balance sheet as of that date resulting from the consolidation of Penske Truck Leasing Co., L.P. (Penske), which was previously accounted for using the equity method. Penske provides full-service commercial truck leasing, truck rental and logistics services, primarily in North America. This accounting change did not require an adjustment to earnings and will not affect future earnings or cash flows.

We adopted FIN 46, *Consolidation of Variable Interest Entities* on July 1, 2003, and for the first time consolidated certain special purpose entities. In total, transition resulted in a \$339 million after-tax accounting charge to our third quarter 2003 net earnings which is reported in the caption Cumulative effect of accounting change.

- FIN 46 required that, if practicable, we consolidate assets and liabilities of FIN 46 entities based on their carrying amounts. For us, such transition losses were primarily associated with interest rate swaps that did not qualify for hedge accounting before transition. Additional transition losses arose from recording carrying amounts of assets and liabilities as we eliminated certain previously recognized gains.
- When it was impracticable to determine carrying amounts, as defined, FIN 46 required assets and liabilities to be consolidated at their July 1, 2003, fair values. We recognized a loss on consolidation of certain of these entities because the fair value of associated liabilities, including the fair values of interest rate swaps, exceeded independently appraised fair values of their related assets.

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- For assets that had been securitized using qualifying special purpose entities (QSPEs), transition carrying amounts were based on hypothetical repurchase of the assets at fair value. Transition effects associated with consolidation of these assets and liabilities were insignificant, as were transition effects of consolidating assets and liabilities associated with issuance of guaranteed income contracts (GICs).

4. FIN 46 and FIN 46R changed the accounting for certain types of entities we use in the ordinary course of our securitization activities. Securitization entities consolidated as a result of FIN 46 and FIN 46R differ from other entities included in our consolidated financial statements because, by terms of relevant governing documents, the assets they hold, which are typically financial in nature, are legally isolated and are unavailable to us under any circumstances. Similarly, their liabilities are not our legal obligations but repayment depends primarily on cash flows generated by their assets. These securitization entities normally issue debt in the form of asset-backed securities, that is, debt secured by assets in the entity. We refer to certain of these entities as "consolidated, liquidating securitization entities" because we do not intend to replace the assets they contain; rather, we intend that such entities will liquidate as their assets are repaid. Because their assets and liabilities differ from other assets and liabilities in our financial statements, we are providing supplemental information about these entities below and in notes 5 and 7 along with information about off-balance sheet securitization entities.

(In millions)	At	
	9/30/04	12/31/03
Assets in consolidated, liquidating securitization entities are shown in the following captions:		
Investment securities	\$ 1,328	\$ 1,566
Financing receivables net (note 5)	14,786	21,877
Other assets	2,373	2,357
Other, principally insurance receivables	338	668
Total	18,825	26,468
Off-balance sheet		
(a)	25,927	21,894
Total securitized assets	\$ 44,752	\$ 48,362

(a) Of amounts off-balance sheet, \$4,489 million at September 30, 2004 and \$4,092 million at December 31, 2003, were in entities to which we provide credit and/or liquidity support.

We continue to engage in off-balance sheet securitization transactions with third-party entities and to use public market, term securitizations. The following table provides further information about the nature of the assets in securitization entities that are both consolidated and off-balance sheet.



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(In millions)	At	
	9/30/04	12/31/03
Receivables and other assets secured by:		
Equipment	\$ 12,742	\$ 15,616
Commercial real estate	13,465	15,046
Other assets	11,455	9,119
Credit card receivables	7,090	8,581
Total securitized assets	<u>\$ 44,752</u>	<u>\$ 48,362</u>

5. Financing receivables net, consisted of the following.

(In millions)	At	
	9/30/04	12/31/03
Time sales and loans, net of deferred income	\$ 192,168	\$ 187,733
Investment in financing leases, net of deferred income	64,872	63,760
	<u>257,040</u>	<u>251,493</u>
Allowance for losses on financing receivables	(6,431)	(6,198)
Financing receivables net	<u>\$ 250,609</u>	<u>\$ 245,295</u>

Included in the above are the financing receivables of consolidated, liquidating securitization entities as follows:

(In millions)	At	
	9/30/04	12/31/03
Time sales and loans, net of deferred income	\$ 12,300	\$ 18,050
Investment in financing leases, net of deferred income	2,507	3,827
	<u>14,807</u>	<u>21,877</u>
Allowance for losses on financing receivables	(21)	
Financing receivables net	<u>\$ 14,786</u>	<u>\$ 21,877</u>

6. Intangible assets are summarized in the following table.

At

(In millions)	9/30/04	12/31/03
Goodwill	\$ 22,064	\$ 19,741
Present value of future profits (PVFP)	811	1,259
Capitalized software	658	695
Other intangibles	886	915
Total	\$ 24,419	\$ 22,610

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Intangible assets were net of accumulated amortization of \$9,260 million at September 30, 2004, and \$9,424 million at December 31, 2003.

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**GOODWILL**

Changes in goodwill balances follow.

2004						
(In millions)	Commercial Finance	Consumer Finance	Equipment & Other Services	Insurance	Portion of goodwill not included in GECC	Total
Balance at January 1	\$ 8,627					