CIT GROUP INC
Form 10-Q
May 08, 2007

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 March 31, 2007*	or	|_|	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**65-1051192** (IRS Employer Identification Number)
505 Fifth Avenue, New York, New York (Address of Registrant s principal executive offices)	**10017** (Zip Code)
(212) 771-0505 (Registrant s telephone number)	

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 | |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer |X| Accelerated filer | | Non-accelerated filer | |.

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 under the Securities Exchange Act of 1934. Yes | | No |X|

As of April 30, 2007, there were 191,784,988 shares of the registrant s common stock outstanding.

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Part One Financial Information

ITEM 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS **Assets** (dollars in millions - except share data)

(Unaudited)	**March 31, 2007**	**December 31, 2006**
Financing and leasing assets held for investment:		
Finance receivables, including receivables pledged of $4,238.4 and $4,311.6	$60,126.5	$55,064.9
Reserve for credit losses	(704.0)	(659.3)
Net finance receivables	59,422.5	54,405.6
Operating lease equipment, net	11,294.4	11,017.9
Financing and leasing assets held for sale	1,954.9	1,793.7
Cash and cash equivalents, including $144.2 and $179.0 restricted	3,464.4	4,458.4

(Unaudited)	March 31, 2007	December 31, 2006
Retained interest in securitizations and other investments	1,231.9	1,059.4
Goodwill and intangible assets, net	1,252.4	1,008.4
Other assets	3,439.2	3,324.5
Total Assets	$82,059.7	$77,067.9

CONSOLIDATED BALANCE SHEETS Liabilities and Stockholders Equity

Debt:		
Commercial paper	$5,261.4	$5,365.0
Deposits	2,908.8	2,399.6
Non-recourse, secured borrowings	4,333.8	4,398.5
Variable-rate senior unsecured notes	23,009.4	19,184.3
Fixed-rate senior unsecured notes	29,912.6	29,107.1
Junior subordinated notes	750.0	-
Preferred capital securities	250.3	250.3
Total debt	66,426.3	60,704.8
Credit balances of factoring clients	3,769.9	4,131.3
Accrued liabilities and payables	4,396.0	4,440.8
Total Liabilities	74,592.2	69,276.9
Commitments and Contingencies (Note 11)		
Minority interest	**39.6**	**39.9**
Stockholders Equity:		
Preferred stock: $0.01 par value, 100,000,000 authorized, Issued and outstanding:		
Series A 14,000,000 with a liquidation preference of $25 per share	350.0	350.0
Series B 1,500,000 with a liquidation preference of $100 per share	150.0	150.0
Common stock: $0.01 par value, 600,000,000 authorized,		
Issued: 214,234,705 and 213,555,940	2.1	2.1
Outstanding: 191,911,903 and 198,295,376		
Paid-in capital, net of deferred compensation of $104.8 and $68.7	10,633.6	10,678.9
Accumulated deficit	(2,689.6)	(2,838.9)
Accumulated other comprehensive income	121.5	129.6
Less: treasury stock, 22,322,802 and 15,260,564 shares, at cost	(1,139.7)	(720.6)
Total Common Stockholders Equity	6,927.9	7,251.1
Total Stockholders Equity	7,427.9	7,751.1
Total Liabilities and Stockholders Equity	$82,059.7	$77,067.9

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income (Unaudited) Quarters Ended March 31, (dollars in millions, except per share data)

	2007	2006
Finance revenue	$ 1,617.1	$ 1,294.6
Interest expense	873.6	598.3
Depreciation on operating lease equipment	263.6	249.4
Net finance revenue	479.9	446.9
Provision for credit losses	71.1	33.3
Net finance revenue, after credit provision	408.8	413.6
Other revenue	328.6	260.1
Total net revenue, after credit provision	737.4	673.7
Salaries and general operating expenses	355.8	323.1
Provision for severance and real estate exit activities	-	11.1
Loss on early extinguishments of debt	139.3	-
Income before provision for income taxes	242.3	339.5
Provision for income taxes	(34.1)	(101.3)
Minority interest, after tax	(0.1)	(0.8)
Net income before preferred stock dividends	208.1	237.4
Preferred stock dividends	(7.5)	(7.7)
Net income available to common stockholders	$ 200.6	$ 229.7
Per common share data		
Basic earnings per share	$ 1.03	$ 1.15
Diluted earnings per share	$ 1.01	$ 1.12
Number of shares - basic (thousands)	194,099	199,462
Number of shares - diluted (thousands)	197,922	204,455
Dividends per common share	$ 0.25	$ 0.20

See Notes to Consolidated Financial Statements.

CIT GROUP INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity (Unaudited) (dollars in millions)

	Preferred Stock	Common Stock	Paid-in Capital	Accumulated (Deficit) / Earnings	Accumulated Other Comprehensive Income / (Loss)	Treasury Stock	Total Stockholders Equity

December 31, 2006	**$500.0**	**$2.1**	**$10,678.9**	**$(2,838.9)**	**$129.6**	**$ (720.6)**	**$ 7,751.1**
Beginning accumulated deficit adjustment due to adoption of new accounting standards (see Note 2)				0.1			0.1
Net income before preferred stock dividends				208.1			208.1
Foreign currency translation adjustments					16.7		16.7
Change in fair values of derivatives qualifying as cash flow hedges					(22.6)		(22.6)
Unrealized loss on securitization investments, net					(2.9)		(2.9)
Minimum pension liability adjustment					0.7		0.7
Total comprehensive income							200.0
Cash dividends - common				(51.4)			(51.4)
Cash dividends - preferred				(7.5)			(7.5)
Stock repurchase agreement			(57.9)			(442.1)	(500.0)
Restricted stock expense			11.5				11.5
Stock option expense			6.0				6.0
Treasury stock purchased, at cost						(56.3)	(56.3)
Exercise of stock option awards, including tax benefits			(4.8)			78.2	73.4
Employee stock purchase plan participation			(0.1)			1.1	1.0
March 31, 2007	**$500.0**	**$2.1**	**$10,633.6**	**$(2,689.6)**	**$121.5**	**$ (1,139.7)**	**$ 7,427.9**

See Notes to Consolidated Financial Statements.

CIT GROUP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited) Quarters Ended March 31, (dollars in millions)

	2007	2006
Cash Flows From Operations		
Net income before preferred stock dividends	$ 208.1	$ 237.4
Adjustments to reconcile net income to net cash flows from operations:		
Depreciation, amortization and accretion	292.2	214.4
Loss on early extinquishments of debt	139.3	-
Gains on equipment, receivable and investment sales	(72.9)	(68.0)
Provision for credit losses	71.1	33.3
Provision for deferred federal income taxes	44.1	53.7
Share-based compensation amortization	17.5	20.8
(Increase) decrease in finance receivables held for sale	(211.9)	72.7

Decrease in other assets	52.3	199.5
(Decrease) in accrued liabilities and payables	(39.8)	(374.3)
Net cash flows provided by operations	500.0	389.5
Cash Flows From Investing Activities		
Finance receivables extended and purchased	(17,979.5)	(17,592.9)
Principal collections of finance receivables and investments	13,613.7	13,911.2
Proceeds from asset and receivable sales	1,038.3	1,375.4
Purchases of assets to be leased and other equipment	(696.2)	(578.2)
Acquisitions, net of cash acquired	(1,835.6)	8.7
Net increase in short-term factoring receivables	(200.2)	(186.0)
Net cash flows (used for) investing activities	(6,059.5)	(3,061.8)
Cash Flows From Financing Activities		
Proceeds from the issuance of unsecured notes, deposits and non-recourse borrowings	7,545.4	5,794.9
Repayments of unsecured notes, deposits and non-recourse borrowings	(2,296.1)	(3,371.0)
Net decrease in commercial paper	(103.6)	(942.7)
Treasury stock repurchases	(498.4)	(85.6)
Treasury stock issuances	79.3	97.1
Net repayments of non-recourse leveraged lease debt	(22.4)	(77.1)
Cash dividends paid	(58.9)	(48.7)
Excess tax benefit related to share-based compensation	17.6	17.1
Other	(62.6)	(4.5)
Net cash flows provided by financing activities	4,600.3	1,379.5
Net (decrease) in cash and cash equivalents	(959.2)	(1,292.8)
Unrestricted cash and cash equivalents, beginning of period	4,279.4	3,347.5
Unrestricted cash and cash equivalents, end of period	$ 3,320.2	$ 2,054.7
Supplementary Cash Flow Disclosure		
Interest paid	$ 656.4	$ 467.0
Federal, foreign, state and local income taxes paid, net	$ 84.2	$ 37.9

See Notes to Consolidated Financial Statements.

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., a Delaware corporation (we, CIT or the Company), is a global commercial and consumer finance company that was founded in 1908. CIT provides financing and leasing capital for consumers and companies in a wide variety of industries, offering vendor, equipment, commercial, factoring, home lending, student lending and structured financing products, as well as management advisory services. CIT operates primarily in North America, with locations in Europe, Latin America, Australia and the Asia-Pacific region.

These financial statements have been prepared in accordance with the instructions to Form 10-Q, do not include all of the information and note disclosures required by accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the

Company s Annual Report on Form 10-K for the year ended December 31, 2006. Financial statements in this Form 10-Q have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of CIT s financial position and results of operations. Certain prior period amounts have been conformed to the current year presentation, including segment results and certain items relating to student lending in the Consolidated Statement of Cash Flows.

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2007, management adopted Financial Accounting Standards Board FSP No. FAS 13-2, (FAS 13-2) Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction . The Company applied FAS 13-2 to all its leveraged lease transactions under the transition provision of the interpretation. As a result of the adoption, a direct credit of $6.5 million after taxes reduced the Accumulated deficit as of January 1, 2007.

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes , which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position must meet to be recognized in the financial statements. The Company applied FIN 48 to all its tax positions, including tax positions taken and those expected to be taken, under the transition provision of the interpretation. As a result of the implementation of FIN 48, the Company recognized an increase of $6.4 million in tax liabilities and a corresponding decrease to retained earnings, bringing the liabilities for uncertain tax positions to $211.0 million as of January 1, 2007 (including $23.2 million for the potential payment of interest and penalties). In the event that unrecognized tax benefits are realized and interest and penalties are not assessed with respect to uncertain tax positions, the tax provision will be reduced prospectively.

During the quarter ended March 31, 2007, the Company recognized in earnings a $12.9 million decrease in the liability for uncertain tax positions and a $0.5 million increase in potential interest and penalties associated with uncertain tax positions.

The Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to March 31, 2008.

The Company recognizes potential interest and penalties related to uncertain tax positions within the provision for income taxes in accordance with existing accounting policy.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which provides guidance for using fair value to measure assets and liabilities. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is evaluating the effect of the standard.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , which permits entities to selectively elect fair value measurement for financial assets and liabilities. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is evaluating the fair value accounting option available under the standard.

NOTE 3 EARNINGS PER COMMON SHARE

Basic earnings per common share (EPS) is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. The diluted EPS computation includes the potential impact of dilutive securities, including stock options and unvested restricted stock grants. The dilutive effect of stock options and unvested restricted stock grants is computed using the treasury stock method, which assumes the repurchase of common shares by CIT at the average market price for the period. Options and grants that do not have a dilutive effect are not included in the denominator and averaged approximately 12.3 million shares and 14.2 million shares for the quarters ended March 31, 2007 and 2006. The reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented below:

EPS for the quarters ended March 31, (dollars in millions, except per share amounts; shares in thousands)

	2007			2006		
	Net Income	Common Shares	Per Share Amount	Net Income	Common Shares	Per Share Amount
Basic EPS	$200.6	194,099	$1.03	$229.7	199,462	$1.15
Effect of dilutive securities:						
Restricted shares		133			-	
Performance shares		1,461			2,206	
Stock options		2,229			2,787	
Diluted EPS	$200.6	197,922	$1.01	$229.7	204,455	$1.12

NOTE 4   BUSINESS SEGMENT INFORMATION

Beginning with the first quarter of 2007, we refined our capital allocation factors and also began allocating certain expenses to our segments to measure segment performance on a more fully loaded basis. These expenses, equity-based compensation and corporate support costs as well as a portion of the provisions for credit losses, had previously been recorded in Corporate and Other. Certain other expenses are not allocated to the operating segments. These are reported in Corporate and Other and consist primarily of the following: (1) certain funding costs, as the segment results reflect debt transfer pricing that matches assets (as of the origination date) with liabilities from an interest rate and maturity perspective; (2) certain tax provisions and benefits; (3) a portion of credit loss provisioning in excess of amounts recorded in the segments; and (4) interest and dividends on preferred securities, as segment risk adjusted returns are based on the allocation of common equity.

This presentation is consistent with our internal reporting to management. Prior year amounts have been conformed to the current year presentation.

Business Segments (dollars in millions)

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Consumer & Small Business Lending	Total Segments	Corporate and Other	Consolidated
For the Quarter Ended March 31, 2007								
Net finance revenue, before depreciation	$158.5	$210.9	$41.3	$252.5	$93.9	$757.1	$(13.6)	$743.5
Depreciation on operating lease equipment	9.8	133.5		120.4		263.7	(0.1)	263.6
Provision for credit losses	16.8	(22.5)	7.9	13.5	43.7	59.4	11.7	71.1
Other revenue	87.7	17.7	67.7	112.8	42.3	328.2	0.4	328.6
Total net revenue after credit provision	219.6	117.6	101.1	231.4	92.5	762.2	(24.8)	737.4
Loss on early extinguishments of debt							139.3	139.3
Provision for income taxes	(39.8)	(7.7)	(23.3)	(37.9)	(9.8)	(118.5)	84.4	(34.1)
Net income (loss) available (attributable) to common stockholders	72.4	76.3	36.6	73.5	20.3	279.1	(78.5)	200.6
Total financing and leasing assets	20,529.2	12,453.7	6,889.2	10,737.6	22,787.3	73,397.0		73,397.0
Total managed assets	21,965.8	12,453.7	6,889.2	15,015.1	23,387.8	79,711.6		79,711.6

For the Quarter Ended March 31, 2006								
Net finance revenue, before depreciation	$127.0	$184.9	$38.5	$266.8	$84.7	$701.9	$(5.6)	$696.3
Depreciation on operating lease equipment	8.7	104.3		136.5		249.5	(0.1)	249.4
Provision for credit losses	(2.6)	(0.4)	7.0	17.5	20.6	42.1	(8.8)	33.3
Other revenue	60.0	6.1	69.7	84.8	39.2	259.8	0.3	260.1
Total net revenue after credit provision	180.9	87.1	101.2	197.6	103.3	670.1	3.6	673.7
Provision for income taxes	31.9	4.2	23.6	35.3	12.2	107.2	(5.9)	101.3
Net income available to common stockholders	54.3	49.5	39.8	62.1	21.6	227.3	2.4	229.7
Total financing and leasing assets	14,894.3	10,635.6	6,719.5	9,009.8	17,330.2	58,589.4		58,589.4
Total managed assets	17,149.9	10,635.6	6,719.5	12,885.7	18,111.8	65,502.5		65,502.5

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 CONCENTRATIONS

The following table summarizes the geographic and industry compositions (by obligor) of financing and leasing portfolio assets.

Concentrations (dollars in millions)

	March 31, 2007		December 31, 2006	
Geographic				
Northeast	$13,356.0	18.2%	$12,715.5	18.7%
West	12,665.1	17.3%	12,113.2	17.9%
Midwest	12,866.6	17.5%	11,994.2	17.7%
Southeast	10,369.6	14.1%	10,079.1	14.8%
Southwest	6,956.6	9.5%	6,642.1	9.8%
Total U.S.	56,213.9	76.6%	53,544.1	78.9%
Canada	4,050.3	5.5%	3,823.3	5.6%
Other international *(1)*	13,132.8	17.9%	10,534.5	15.5%
Total	$73,397.0	100.0%	$67,901.9	100.0%

(1) International increase reflects the acquisition of Barclays vendor finance business, which closed in the first quarter of 2007.

Industry				
Consumer - home mortgage	$10,952.1	14.9%	$9,887.8	14.6%
Consumer - student lending	9,876.9	13.5%	8,772.7	12.9%
Manufacturing*(1)(5)*	9,930.0	13.5%	8,383.3	12.3%
Commercial airlines (including regional airlines)	7,542.0	10.3%	7,344.0	10.8%

Retail*(2)*	6,918.4	9.4%	6,759.0	10.0%
Service industries	4,171.3	5.7%	3,966.4	5.8%
Healthcare	3,407.3	4.6%	3,388.4	5.0%
Transportation*(3)*	3,336.0	4.5%	3,063.9	4.5%
Wholesaling	2,488.9	3.4%	2,485.0	3.7%
Consumer - other*(4)*	1,371.5	1.9%	1,626.1	2.4%
Other (no industry greater than 2.0%)*(5)*	13,402.6	18.3%	12,225.3	18.0%
Total	$73,397.0	100.0%	$67,901.9	100.0%

(1) *Includes manufacturers of apparel (1.8%), followed by food and kindred products, steel and metal products, transportation equipment, industrial machinery and equipment, electronic equipment, textiles, printing and other industries.*

(2) *Includes retailers of apparel (3.6%) and general merchandise (3.4%).*

(3) *Includes rail, bus, over-the-road trucking industries and business aircraft.*

(4) *Includes receivables from consumers for products in various industries such as manufactured housing, recreational vehicles, marine and computers and related equipment.*

(5) *Total exposure to manufacturers of automobile and related suppliers included in Manufacturing and Other was less than 1% of total financing and leasing assets.*

NOTE 6 RETAINED INTERESTS IN SECURITIZATIONS AND OTHER INVESTMENTS

The following table details the components of retained interests in securitizations and other investments.

Retained Interests and Other Investments (dollars in millions)

	March 31, 2007	**December 31, 2006**
Retained interests in commercial loans:		
Retained subordinated securities	$ 345.6	$ 304.3
Interest-only strips	505.4	395.5
Cash reserve accounts	331.9	318.7
Total retained interests in commercial loans	1,182.9	1,018.5
Retained interests in home lending consumer loans:		
Retained subordinated securities	31.9	34.8
Interest-only strips	9.0	6.1
Total retained interests in home lending consumer loans	40.9	40.9
Total retained interests in securitizations	1,223.8	1,059.4
Other equity investments	8.1	
Total	$1,231.9	$1,059.4

NOTE 7 ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table details the components of accumulated other comprehensive income, net of tax.

Accumulated Other Comprehensive Income (dollars in millions)

	March 31, 2007	December 31, 2006
Changes in fair values of derivatives qualifying as cash flow hedges	$ 11.6	$ 34.2
Foreign currency translation adjustments	148.9	132.2
Minimum pension liability adjustments	(1.8)	(2.5)
Unfunded pension and post-retirement benefit liabilities*(1)*	(52.7)	(52.7)
Unrealized gain on securitization investments	15.5	18.4
Total accumulated other comprehensive income	$ 121.5	$ 129.6

(1) The adoption of SFAS 158 at December 31, 2006 resulted in recording various unfunded post-retirement liabilities.

The changes in fair values of derivatives qualifying as cash flow hedges related to variations in market interest rates during the quarter, as these derivatives hedge the interest rate variability associated with an equivalent amount of variable-rate debt, including commercial paper. See Note 8 for additional information. The change in foreign currency translation adjustments during the quarter reflects the strengthening of various foreign currencies during the period, particularly the Euro, the Canadian Dollar, and the British Pound, partially offset by corresponding hedging activity on an after tax basis.

Total comprehensive income for the quarters ended March 31, 2007 and 2006 was $200.0 million and $265.6 million, respectively.

The components of the adjustment to Accumulated Other Comprehensive Income for derivatives qualifying as hedges of future cash flows are presented in the following table.

Accumulated Other Comprehensive Income (related to derivatives qualifying as cash flow hedges) (dollars in millions)

	Fair Value Adjustments of Derivatives	Income Tax Effects	Total Unrealized Gain
Balance at December 31, 2006 - unrealized gain	$59.2	$(25.0)	$34.2
Changes in values of derivatives qualifying as cash flow hedges	(37.0)	14.4	(22.6)
Balance at March 31, 2007 - unrealized gain	$22.2	$(10.6)	$11.6

The unrealized gain as of March 31, 2007 reflects higher market interest rates since the inception of the hedges. The Accumulated Other Comprehensive Income (along with the corresponding swap asset or liability) will be adjusted as market interest rates change over the remaining lives of the swaps. Assuming no change in interest rates, approximately $4.6 million, net of tax, of the Accumulated Other Comprehensive Income as of March 31, 2007 is expected to be reclassified to earnings over the next twelve months as contractual cash payments are made.

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

The Company executes derivative transactions to hedge economic exposures. The majority of these transactions qualify for hedge accounting. The following table presents the notional principal amounts of interest rate swaps by class and the corresponding hedged positions.

Interest Rate Swaps (dollars in millions)

March 31, 2007	December 31, 2006	Hedged Item	Hedge Classification
Variable-rate to fixed-rate swaps(1)			
$2,734.5	$2,663.5	Cash flow variability related to forecasted commercial paper issuances	Cash flow
9,163.6	9,435.7	Cash flow variability associated with specific variable-rate term debt	Cash flow
$11,898.1	$12,099.2		
Fixed-rate to variable-rate swaps(2)			
$13,812.0	$14,026.0	Specific fixed-rate term debt	Fair value

(1) CIT pays a fixed rate of interest and receives a variable rate of interest. These swaps hedge the cash flow variability associated with forecasted commercial paper issuances and specific variable-rate debt.

(2) CIT pays a variable rate of interest and receives a fixed rate of interest. These swaps hedge specific fixed-rate debt instruments.

The following table presents the notional principal amounts of cross-currency swaps by class and the corresponding hedged positions.

Cross-currency Swaps (dollars in millions)

March 31, 2007	December 31, 2006	Hedged Item	Hedge Classification	Description
$4,026.5	$3,905.5	Foreign denominated debt	Foreign currency fair value	CIT pays a U.S. variable rate of interest and receives a variable foreign rate of interest. These swaps hedge the fair value changes in foreign currency associated with specific foreign denominated debt and are designated as foreign currency fair value hedges.
249.5	249.5	Foreign denominated fixed-rate debt	Foreign currency cash flow	CIT pays a U.S. fixed rate of interest and receives a fixed foreign rate of interest. These swaps hedge the currency cash flow variability associated with payments on specific foreign denominated fixed-rate debt and are designated as foreign currency cash flow hedges.
94.8	115.3	Foreign currency loans to	Foreign currency cash flow	CIT receives a U.S. fixed rate of interest and pays a fixed foreign rate of interest. These

		subsidiaries		swaps hedge the currency cash flow variability associated with payments on specific fixed-rate foreign denominated inter-company receivables and are designated as foreign currency cash flow hedges.
4.9	4.9	Foreign currency loans to subsidiaries	Foreign currency fair value	CIT receives a U.S. variable rate of interest and pays a variable foreign rate of interest. These swaps hedge the fair value currency changes associated with specific foreign denominated variable-rate inter-company receivables and are designated as foreign currency fair value hedges.
$4,375.7	$4,275.2			

In addition to the swaps in the preceding tables, CIT had $1.4 billion and $1.2 billion in notional amount of interest rate swaps outstanding with securitization trusts at March 31, 2007 and December 31, 2006 to protect the trusts against interest rate risk. CIT entered into offsetting swap transactions with third parties totaling $1.4 billion and $1.2 billion in notional amount at March 31, 2007 and December 31, 2006 to insulate the Company from the related interest rate risk.

CIT sells various foreign currencies forward. These contracts are designated as either cash flow hedges of specific foreign denominated inter-company receivables or as net investment hedges of foreign denominated investments in subsidiaries. The following table presents the notional principal amounts of foreign currency forward exchange contracts and the corresponding hedged positions.

Foreign Currency Forward Exchange Contracts (dollars in millions)

March 31, 2007	December 31, 2006	Hedged Item	Hedge Classification
$3,939.9	$4,205.9	Foreign currency equity investments in subsidiaries	Foreign currency net investment
872.8	904.1	Foreign currency loans to subsidiaries	Foreign currency cash flow
$4,812.7	$5,110.0		

During 2005, CIT executed a natural gas commodity swap whereby CIT receives payments based on a fixed rate for natural

gas and makes payments based on an energy index. This swap hedges forecasted index-based revenues from a specific energy generation facility for an initial term of 24 months and is accounted for as a cash flow hedge. The fair value of the swap at March 31, 2007 totaled $2.7 million, down from $6.3 million at December 31, 2006. Approximately $1.1 million (pretax gain) of ineffectiveness was recorded in earnings during the quarter ended March 31, 2007. The remaining change in fair value (effective portion) was recorded in Other Comprehensive Income.

The table that follows summarizes the notional amount of economic hedges that do not qualify for hedge accounting under SFAS 133.

Non-hedge Accounting Derivatives (dollars in millions)

March 31, 2007	December 31, 2006	Type of Swaps/Caps
$1,642.3	$1,365.1	U.S. dollar interest rate swaps
1,246.0	946.8	Interest rate caps
311.1	307.0	Compound cross-currency swaps
280.2	213.0	Foreign currency interest rate swaps
178.0	128.0	Credit default swaps
$3,657.6	$2,959.9	Total

The table above includes $2.2 billion in notional amount of derivatives related to customer derivative programs at March 31, 2007, comprised of $1.2 billion in interest rate caps and $1.0 billion in interest rate swaps. These amounts include both derivative transactions with CIT customers, as well as offsetting transactions with third parties with like notional amounts and terms.

CIT also has certain cross-currency swaps, certain U.S. and Canadian dollar interest rate swaps, and interest rate caps that are economic hedges of certain interest rate and foreign currency exposures. The mark-to-market adjustment relating to these derivatives for the quarter ended March 31, 2007 amounted to a $14.9 million pretax decrease to earnings.

CIT entered into credit default swaps, with terms of up to 5 years, to economically hedge certain CIT credit exposures. The change in the fair value adjustment for the quarter ended March 31, 2007 amounted to a $1.2 million pretax loss.

Hedge ineffectiveness occurs in certain cash flow hedges, and was recorded as either an increase or decrease to interest expense as presented in the following table.

Hedge Ineffectiveness (dollars in millions)

	Ineffectiveness	Increase/ Decrease to Interest Expense
Quarter ended March 31, 2007	$0.1	Decrease
Quarter ended March 31, 2006	$0.1	Decrease

NOTE 9 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

CIT is a partner with Dell Inc. (Dell) in Dell Financial Services L.P. (DFS), a joint venture that offers financing to Dell s customers. The joint venture provides Dell with financing and leasing capabilities that are complementary to its product offerings and provides CIT with a source of new financings. The joint venture agreement provides Dell with the option to purchase CIT s 30% interest in DFS in February 2008 based on a formula tied to DFS profitability. CIT has the right to purchase a minimum percentage of DFS s finance receivables on a declining scale through January 2010.

CIT regularly purchases finance receivables from DFS at a premium, portions of which are typically securitized within 90 days of purchase from DFS. CIT has certain recourse to DFS on defaulted contracts. In accordance with the joint venture agreement, net income and losses generated by DFS as determined under GAAP are allocated 70% to Dell and 30% to CIT. The DFS board of directors voting representation is equally weighted between designees of CIT and Dell, with one independent director. DFS is not consolidated in CIT s financial statements and is accounted for under the equity method. Financing and leasing assets related to the DFS program included in the CIT Consolidated Balance Sheet (but excluding certain related international receivables originated directly by CIT) were approximately $0.9 billion and $1.3 billion and securitized assets included in managed assets were approximately $2.6 billion and $2.4 billion at March 31, 2007 and December 31, 2006, respectively. CIT s equity investment in and loans to the joint venture was approximately $193 million and $181 million at March 31, 2007 and December 31, 2006.

CIT also has a joint venture arrangement with Snap-on Incorporated (Snap-on) that has a similar business purpose and model to the DFS arrangement described above, including limited credit recourse on defaulted receivables. The agreement with Snap-on extends until January 2009. CIT and Snap-on have 50% ownership interests, 50% board of directors representation, and share income and losses equally. The Snap-on joint venture is accounted for under the equity method and is not consolidated

in CIT s financial statements. At March 31, 2007 and December 31, 2006, financing and leasing assets were approximately $1.0 billion and securitized assets included in managed assets were $0.1 billion. In addition to the owned and securitized assets purchased from the Snap-on joint venture, CIT s equity investment in and loans to the joint venture were approximately $28 million and $14 million at March 31, 2007 and December 31, 2006.

Since December 2000, CIT has been a joint venture partner with Canadian Imperial Bank of Commerce (CIBC) in an entity that is engaged in asset-based lending in Canada. Both CIT and CIBC have a 50% ownership interest in the joint venture, and share income and losses equally. This entity is not consolidated in CIT s financial statements and is accounted for under the equity method. CIT s investment in and loans to the joint venture were approximately $341 million and $224 million at March 31, 2007 and December 31, 2006.

CIT invests in various trusts, partnerships, and limited liability corporations established in conjunction with structured financing transactions of equipment, power and infrastructure projects. CIT s interests in certain of these entities were acquired by CIT in a 1999 acquisition, and others were subsequently entered into in the normal course of business. Other assets included approximately $17 million of investments in non-consolidated entities relating to such transactions that are accounted for under the equity or cost methods at both March 31, 2007 and December 31, 2006.

Certain shareholders of CIT provide investment management, banking and investment banking services to CIT in the normal course of business.

NOTE 10 RETIREMENT, POSTRETIREMENT AND OTHER BENEFIT PLANS

The following table discloses various components of pension and postretirement expense.

Retirement, Postretirement and Other Benefit Plans for the quarters ended March 31 (dollars in millions)

	2007	2006
Retirement Plans		
Service cost	$ 6.2	$ 5.2
Interest cost	5.4	4.5
Expected return on plan assets	(5.6)	(5.2)
Amortization of net loss	0.3	0.6
Amortization of prior service cost	0.7	
Termination benefits		0.6
Net periodic benefit cost	$ 7.0	$ 5.7
Postretirement Plans		
Service cost	$ 0.5	$ 0.6
Interest cost	0.8	0.8
Amortization of net loss	0.2	0.2
Net periodic benefit cost	$ 1.5	$ 1.6

CIT contributed $1.4 million to the retirement plans for the quarter, and currently expects to contribute an additional $8.0 million in 2007, for a total of $9.4 million.

CIT contributed $1.0 million to postretirement plans for the quarter, and currently expects to contribute an additional $3.8 million in 2007, for a total of $4.8 million.

The expected aggregate contributions for 2007 remain unchanged from the estimate of December 31, 2006.

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES

Financing and leasing asset commitments, referred to as loan commitments or lines of credit, are agreements to lend to customers subject to the customers compliance with contractual obligations. The accompanying table summarizes these and other credit-related commitments, as well as purchase and funding commitments.

Commitments (dollars in millions)

	March 31, 2007			December 31, 2006
	Due to Expire			
	Within One Year	After One Year	Total Outstanding	Total Outstanding
Financing Commitments				
Financing and leasing assets	$2,103.4	$9,923.3	$12,026.7	$12,601.4
Letters of Credit, Acceptances and Guarantees:				
Standby letters of credit	618.7	56.0	674.7	632.5
Other letters of credit	382.8		382.8	426.9
Guarantees, acceptances and other recourse obligations	151.2	73.6	224.8	315.0
Purchase and Funding Commitments				
Aerospace purchase commitments	1,501.0	4,088.0	5,589.0	5,799.0
Other manufacturer purchase commitments	697.3	394.5	1,091.8	1,176.0
Sale-leaseback payments	118.8	1,540.1	1,658.9	1,740.8

In addition to the amounts shown in the table above, unused, cancelable lines of credit to customers in connection with a third-party vendor program, which may be used to finance additional technology product purchases, amounted to approximately $29.4 billion and $27.7 billion at March 31, 2007 and December 31, 2006. These uncommitted vendor-related lines of credit represent CIT s estimated proportional amount and can be reduced or canceled by CIT at any time without notice. Our experience indicates that customers typically will not exercise their entire available line of credit at any point in time.

In the normal course of meeting the needs of its customers, CIT also enters into commitments to provide financing, letters of credit and guarantees. Standby letters of credit obligate CIT to pay the beneficiary of the letter of credit in the event that a CIT client to whom the letter of credit was issued does not meet its related obligation to the beneficiary. These financial instruments generate fees and involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. To minimize potential credit risk, CIT generally requires collateral and other forms of credit support from the customer.

Guarantees are issued primarily in conjunction with CIT s factoring product in Trade Finance, whereby CIT provides the client with credit protection for its trade receivables without actually purchasing the receivables. The trade terms are generally sixty days or less. If the customer is unable to pay according to the contractual terms, then CIT purchases the receivables from the client. At March 31, 2007 CIT had no outstanding liabilities relating to these credit-related commitments or guarantees, as amounts are generally billed and collected on a monthly basis. The table above includes recourse obligations of approximately $73 million ($7 million estimated fair value) at March 31, 2007 and $70 million ($7 million) at December 31, 2006, that were incurred in conjunction with financing and leasing asset sales.

CIT s firm purchase commitments relate predominantly to purchases of commercial aircraft and rail equipment. The commitments to purchase commercial aircraft are with both Airbus Industrie and The Boeing Company. These are fixed price purchase commitments subject to customary price increases for future changes in inflation and manufacturing components. The aerospace equipment purchases are contracted for a specific model aircraft, using a baseline aircraft specification at fixed prices, which reflect discounts from fair market purchase prices prevailing at the time of commitment. The delivery price of an aircraft may also change depending on the final specifications of the aircraft, including engine thrust, aircraft weight and seating configuration. Equipment purchases are recorded at delivery date at the final purchase price paid, which includes purchase price discounts, price changes relating to specification changes and

price increases relating to inflation and manufacturing components. Accordingly, the commitment amounts detailed in the preceding table are based on estimated values. Pursuant to existing contractual commitments, 86 aircraft remain to be purchased (28 within the next twelve months). Lease commitments are in place for all of the aircraft to be delivered over the next twelve months. The order amount excludes unexercised CIT options to purchase aircraft. The aircraft deliveries to CIT are scheduled periodically through 2013.

Outstanding commitments to purchase equipment to be leased to customers, other than aircraft, relates primarily to rail equipment. Rail equipment purchase commitments are at fixed prices subject to price increases for inflation and manufacturing components. The time period between commitment and purchase for rail equipment is generally less than 18 months. Additionally, CIT is party to railcar sale-leaseback transactions under which it is obligated to pay a remaining total of $1,658.9 million, or approximately $120 million per year for 2008 through 2012, with remaining payments due through 2030. These lease payments are expected to be more than offset by rental income associated with re-leasing the assets, subject to actual railcar utilization and rentals. In conjunction with sale-leaseback transactions, CIT has guaranteed all obligations of the related consolidated lessee entities.

CIT has guaranteed the public and private debt securities of a number of its wholly-owned, consolidated subsidiaries, including those disclosed in Note 15 - Summarized Financial Information of Subsidiaries. In the normal course of business, various consolidated CIT subsidiaries have entered into other credit agreements and certain derivative transactions with financial institutions that are guaranteed by CIT. These transactions are generally used by CIT s subsidiaries outside of the U.S. to allow the local subsidiary to borrow funds in local currencies.

NOTE 12 LEGAL PROCEEDINGS

NorVergence Related Litigation

Several lawsuits were filed against various financial institutions, including CIT, relating to equipment leases acquired by the financial institutions from NorVergence, Inc. (NorVergence Leases), a reseller of telecommunications and internet services to businesses. The complaints alleged that NorVergence misrepresented the capabilities of the equipment leased to its customers and overcharged for the equipment, and that the NorVergence Leases are unenforceable. Plaintiffs sought rescission, punitive damages, treble damages and attorneys fees. All of these actions as against CIT have been either settled or dismissed, except for one action commenced as a mass action in NorVergence s bankruptcy case, which currently has only four remaining plaintiffs.

Beginning in August 2004, the Attorneys General of several states commenced investigations of NorVergence and financial institutions that purchased NorVergence Leases, including CIT. CIT entered into settlement agreements with the Attorneys General in each of these states, except for Texas. CIT also has produced documents for transactions related to NorVergence at the request of the Federal Trade Commission (FTC) and pursuant to a subpoena in a grand jury proceeding being conducted by the U.S. Attorney for the Southern District of New York in connection with an investigation of transactions related to NorVergence.

On July 14, 2006, the trustee appointed in NorVergence s bankruptcy case filed a complaint against 44 defendants, including CIT and other financing companies. The trustee alleges that the defendants aided and abetted NorVergence in the commission of fraud. CIT has reached an agreement with the Trustee to settle this matter, which is subject to bankruptcy court approval.

Student Loan Investigation

Student Loan Xpress, Inc. (SLX), a subsidiary of CIT, is engaged in the student lending business. During the quarter ended March 31, 2007, in connection with investigations into the relationships between student lenders and the colleges and universities that recommend such lenders to their students, CIT and/or SLX have received requests for information from the Attorneys General of the State of New York and several other states and federal government bodies. CIT engaged outside legal counsel to conduct a review of the business practices that are the subject of the investigations and to support CIT in responding to the information requests. The internal review is ongoing, and CIT is fully cooperating with the investigations.

Other Litigation

In addition, there are various legal proceedings against CIT, which have arisen in the ordinary course of business. While the outcomes of the ordinary course legal proceedings and the related activities are not certain, based on present assessments, management does not believe that they will have a material adverse effect on CIT.

NOTE 13 SEVERANCE AND FACILITY RESTRUCTURING RESERVES

The following table summarizes restructuring activities during 2007:

Restructuring Reserves (dollars in millions)

	Severance		Facilities		
	Number of Employees	Reserve	Number of Facilities	Reserve	Total Reserves
Balance at December 31, 2006	19	$ 5.4	5	$ 11.5	$ 16.9
2007 additions, adjustments	93	12.6		(2.4)	10.2
2007 utilization	(5)	(2.2)	(1)	(4.3)	(6.5)
Balance at March 31, 2007	107	$ 15.8	4	$ 4.8	$ 20.6

The additions during 2007 primarily relate to employee termination benefits in conjunction with the recent acquisitions. The employee termination payments will largely be paid during 2007. The adjustment to facilities reserves resulted from a buyout related to an office facility vacated in 2006. The remaining facilities reserves relate primarily to shortfalls in sublease transactions and will be utilized over the remaining terms, generally 5 years.

NOTE 14 GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill and intangible assets are presented by segment in the table below:

Goodwill and Intangible Assets (dollars in millions)

	Corporate Finance	Trade Finance	Vendor Finance	Consumer and Small Business Lending	Total
Goodwill					
Balance at December 31, 2006	$ 222.7	$ 270.1	$ 12.8	$ 286.5	$ 792.1
Acquisitions, other		0.1	246.4		246.5
Balance at March 31, 2007	$ 222.7	$ 270.2	$ 259.2	$ 286.5	$ 1,038.6
Intangible Assets					
Balance at December 31, 2006	$ 30.4	$ 109.4	$ 48.7	$ 27.8	$ 216.3
Additions	(6.8)	0.1	9.9		3.2
Amortization	(0.6)	(1.7)	(3.0)	(0.4)	(5.7)
Balance at March 31, 2007	$ 23.0	$ 107.8	$ 55.6	$ 27.4	$ 213.8

The additions to goodwill and intangible assets were predominantly related to the acquisition of Barclays UK and German vendor finance business. The Corporate Finance intangible assets adjustment for $6.8 million related to a fourth quarter 2006 acquisition.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , goodwill is not amortized but instead is assessed periodically for impairment. The Company periodically reviews and evaluates its goodwill and intangible assets for potential impairment, at a minimum annually or more frequently if circumstances indicate that impairment is possible. The most recent goodwill and intangible asset impairment analyses indicated that the fair values of each were in excess of the carrying values.

Other intangible assets, net, are comprised primarily of acquired customer relationships. Other intangible assets are being amortized over their corresponding lives ranging from five to twenty years in relation to the related cash flows, where applicable. Amortization expense totaled $5.7 million for the quarters ended March 31, 2007 and 2006. Accumulated amortization totaled $72.7 million and $67.0 million at March 31, 2007 and December 31, 2006. The projected amortization for the years ended December 31, 2007 through December 31, 2011 is: $20.0 million for 2007; $20.0 million for 2008; $20.3 million for 2009; $20.3 million for 2010 and $20.3 million for 2011.

NOTE 15 SUMMARIZED FINANCIAL INFORMATION OF SUBSIDIARIES

The following presents condensed consolidating financial information for CIT Holdings LLC. CIT has guaranteed on a full and unconditional basis the existing debt securities that were registered under the Securities Act of 1933 and certain other indebtedness of this subsidiary. CIT has not presented related financial statements or other information for this subsidiary on a stand-alone basis. Included under Other Subsidiaries is a 100%-owned finance subsidiary of CIT Group Inc., Canadian Funding Company LLC, for which CIT has fully and unconditionally guaranteed the debt securities.

CONSOLIDATING BALANCE SHEETS (dollars in millions)

	Eliminations	Total

	CIT Group Inc.	CIT Holdings LLC	Other Subsidiaries		
March 31, 2007					
ASSETS					
Net finance receivables	$ 1,143.3	$ 2,899.2	$55,380.0	$	$59,422.5
Operating lease equipment, net	9.1	227.1	11,058.2		11,294.4
Finance receivables held for sale	238.4	130.2	1,586.3		1,954.9
Cash and cash equivalents	2,099.7	195.1	1,169.6		3,464.4
Other assets (including investments in subsidiaries)	11,233.6	134.8	1,983.0	(7,427.9)	5,923.5
Total Assets	$ 14,724.1	$ 3,586.4	$71,177.1	$(7,427.9)	$82,059.7
LIABILITIES AND STOCKHOLDERS EQUITY					
Debt	$ 54,580.6	$ 2,903.6	$ 8,942.1	$	$66,426.3
Credit balances of factoring clients		(13.3)	3,783.2		3,769.9
Accrued liabilities and payables	(47,293.5)	200.5	51,489.0		4,396.0
Total Liabilities	7,287.1	3,090.8	64,214.3		74,592.2
Minority interest	9.1		30.5		39.6
Total Stockholders Equity	7,427.9	495.6	6,932.3	(7,427.9)	7,427.9
Total Liabilities and Stockholders Equity	$ 14,724.1	$ 3,586.4	$71,177.1	$(7,427.9)	$82,059.7
December 31, 2006					
ASSETS					
Net finance receivables	$ 926.5	$2,752.3	$50,726.8	$	$54,405.6
Operating lease equipment, net	9.3	216.4	10,792.2		11,017.9
Finance receivables held for sale			1,793.7		1,793.7
Cash and cash equivalents	3,040.3	227.8	1,190.3		4,458.4
Other assets (including investments in subsidiaries)	10,902.7	169.7	2,071.0	(7,751.1)	5,392.3
Total Assets	$ 14,878.8	$3,366.2	$66,574.0	$(7,751.1)	$77,067.9
LIABILITIES AND STOCKHOLDERS EQUITY					
Debt	$ 49,825.9	$2,785.9	$ 8,093.0	$	$60,704.8
Credit balances of factoring clients			4,131.3		4,131.3
Accrued liabilities and payables	(42,698.2)	289.5	46,849.5		4,440.8
Total Liabilities	7,127.7	3,075.4	59,073.8		69,276.9
Minority interest			39.9		39.9
Total Stockholders Equity	7,751.1	290.8	7,460.3	(7,751.1)	7,751.1
Total Liabilities and Stockholders Equity	$ 14,878.8	$3,366.2	$66,574.0	$(7,751.1)	$77,067.9

CONSOLIDATING STATEMENTS OF INCOME (dollars in millions)

	CIT Group Inc.	CIT Holdings LLC	Other Subsidiaries	Eliminations	Total
Three Months Ended March 31, 2007					
Finance revenue	$ 20.5	$ 111.8	$ 1,484.8	$	$ 1,617.1
Interest expense	5.7	10.4	857.5		873.6
Depreciation on operating lease equipment	0.1	17.6	245.9		263.6
Net finance revenue	14.7	83.8	381.4		479.9
Provision for credit losses	19.2	4.1	47.8		71.1
Finance revenue, after credit provision	(4.5)	79.7	333.6		408.8
Equity in net income of subsidiaries	332.0			(332.0)	
Other revenue	1.0	17.8	309.8		328.6
Total net revenue	328.5	97.5	643.4	(332.0)	737.4
Salaries and general operating expenses	47.7	10.9	297.2		355.8
Provision for severance and real estate exit activities					
Loss on early extinguishments of debt	139.3				139.3
Income (loss) before provision for income taxes	141.5	86.6	346.2	(332.0)	242.3
Benefit (provision) for income taxes	66.6	(31.9)	(68.8		