

GENERAL ELECTRIC CAPITAL CORP
Form 10-Q
May 04, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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 001-06461

GENERAL ELECTRIC CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-1500700
(I.R.S. Employer Identification No.)

901 Main Avenue, Norwalk, Connecticut
(Address of principal executive offices)

06851-1168
(Zip Code)

(Registrant's telephone number, including area code) (203) 840-6300

(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

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

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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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

At May 4, 2012, 1,000 shares of voting common stock, which constitute all of the outstanding common equity, with a par value of \$14 per share were outstanding.

(1)

General Electric Capital Corporation

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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 financial condition, and often contain words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “see,” or “will.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: current economic and financial conditions, including volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; potential market disruptions or other impacts arising in the United States or Europe from developments in the European sovereign debt situation; the impact of conditions in the financial and credit markets on the availability and cost of our funding and on our ability to reduce our asset levels as planned; the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults; changes in Japanese consumer behavior that may affect our estimates of liability for excess interest refund claims (Grey Zone); pending and threatened litigation against WMC, including increased activity by securitization trustees; our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so; our plan to resume dividends to our parent, General Electric Company, which is subject to Federal Reserve review; the level of demand and financial performance of the major industries we serve, including, without limitation, air transportation, real estate and healthcare; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation; strategic actions, including acquisitions, joint ventures and dispositions and our success in completing announced transactions and integrating acquired businesses; the impact of potential information technology or data security breaches; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive 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.

(2)

Part I. Financial Information

Item 1. Financial Statements.

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

(In millions)	Three months ended March	
	2012	2011
Revenues		
Revenues from services (a)	\$ 11,444	\$ 13,058
Other-than-temporary impairment on investment securities:		
Total other-than-temporary impairment on investment securities	(32)	(71)
Less: Portion of other-than-temporary impairment recognized in accumulated other comprehensive income	—	7
Net other-than-temporary impairment on investment securities recognized in earnings	(32)	(64)
Revenues from services (Note 9)	11,412	12,994
Sales of goods	30	42
Total revenues	11,442	13,036
Costs and expenses		
Interest	3,196	3,584
Operating and administrative	2,901	3,477
Cost of goods sold	25	40
Investment contracts, insurance losses and insurance annuity benefits	771	769
Provision for losses on financing receivables	863	1,140
Depreciation and amortization	1,695	1,776
Total costs and expenses	9,451	10,786
Earnings from continuing operations before income taxes	1,991	2,250
Benefit (provision) for income taxes	(187)	(429)
Earnings from continuing operations	1,804	1,821
Earnings (loss) from discontinued operations, net of taxes (Note 2)	(217)	35
Net earnings (loss)	1,587	1,856
Less net earnings (loss) attributable to noncontrolling interests	12	31

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Net earnings (loss) attributable to GECC	1,575	1,825
Dividends	—	—
Retained earnings at beginning of period	51,578	45,068
Retained earnings at end of period	\$ 53,153	\$ 46,893
Amounts attributable to GECC		
Earnings from continuing operations	\$ 1,792	\$ 1,790
Earnings (loss) from discontinued operations, net of taxes	(217)	35
Net earnings (loss) attributable to GECC	\$ 1,575	\$ 1,825

(a) Excluding net other-than-temporary impairment on investment securities.

See accompanying notes.

(3)

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General Electric Capital Corporation and consolidated affiliates
Condensed Statement of Comprehensive Income
(Unaudited)

(In millions)	Three months ended	
	March 31,	
	2012	2011
Net earnings	\$ 1,587	\$ 1,856
Less: Net earnings attributable to noncontrolling interests	12	31
Net earnings attributable to GECC	\$ 1,575	\$ 1,825
Other comprehensive income, net of tax		
Investment securities	\$ 330	\$ (188)
Currency translation adjustments	116	1,557
Cash flow hedges	72	(72)
Benefit plans	(24)	(1)
Other comprehensive income, net of tax	494	1,296
Less: Other comprehensive income attributable to noncontrolling interests	(10)	2
Other comprehensive income attributable to GECC	\$ 504	\$ 1,294
Comprehensive income, net of tax	2,081	3,152
Less: Comprehensive income attributable to noncontrolling interests	2	33
Comprehensive income attributable to GECC	\$ 2,079	\$ 3,119

General Electric Capital Corporation and consolidated affiliates
Condensed Statement of Changes in Shareowner's Equity
(Unaudited)

(In millions)	Three months ended March	
	31,	
	2012	2011
Balance at January 1	\$ 77,110	\$ 68,984
Dividends and other transactions with shareowners	3	1
Other comprehensive income, net of tax	504	1,294
Increases from net earnings attributable to the company	1,575	1,825
Balance at March 31	79,192	72,104
Noncontrolling interests	767	1,178
Total equity at March 31	\$ 79,959	\$ 73,282

(4)

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

(In millions)	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and equivalents	\$ 76,165	\$ 76,702
Investment securities (Note 3)	47,814	47,359
Inventories	42	51
Financing receivables – net (Notes 4 and 12)	281,383	288,847
Other receivables	14,000	13,390
Property, plant and equipment, less accumulated amortization of \$23,864 and \$23,615	51,520	51,419
Goodwill (Note 5)	27,326	27,230
Other intangible assets – net (Note 5)	1,468	1,546
Other assets	71,672	75,612
Assets of businesses held for sale (Note 2)	640	711
Assets of discontinued operations (Note 2)	1,332	1,669
Total assets(a)	\$ 573,362	\$ 584,536
Liabilities and equity		
Short-term borrowings (Note 6)	\$ 132,028	\$ 136,333
Accounts payable	8,150	7,239
Non-recourse borrowings of consolidated securitization entities (Note 6)	29,544	29,258
Bank deposits (Note 6)	41,106	43,115
Long-term borrowings (Note 6)	229,195	234,391
Investment contracts, insurance liabilities and insurance annuity benefits	30,227	30,198
Other liabilities	14,354	17,334
Deferred income taxes	7,268	7,052
Liabilities of businesses held for sale (Note 2)	305	345
Liabilities of discontinued operations (Note 2)	1,226	1,471
Total liabilities(a)	493,403	506,736
Common stock, \$14 par value (4,166,000 share authorized at March 31, 2012 and December 31, 2011, respectively, and 1,000 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively)	–	–

Accumulated other comprehensive income – net(b)		
Investment securities	298	(33)
Currency translation adjustments	(274)	(399)
Cash flow hedges	(1,029)	(1,101)
Benefit plans	(587)	(563)
Additional paid-in capital	27,631	27,628
Retained earnings	53,153	51,578
Total GECC shareowner's equity	79,192	77,110
Noncontrolling interests(c)(Note 8)	767	690
Total equity	79,959	77,800
Total liabilities and equity	\$ 573,362	\$ 584,536

(a) Our consolidated assets at March 31, 2012 include total assets of \$46,412 million of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs. These assets include net financing receivables of \$37,733 million and investment securities of \$5,146 million. Our consolidated liabilities at March 31, 2012 include liabilities of certain VIEs for which the VIE creditors do not have recourse to GECC. These liabilities include non-recourse borrowings of consolidated securitization entities (CSEs) of \$28,844 million. See Note 13.

(b) The sum of accumulated other comprehensive income – net was \$(1,592) million and \$(2,096) million at March 31, 2012 and December 31, 2011, respectively.

(c) Included accumulated other comprehensive income – net attributable to noncontrolling interests of \$(131) million and \$(141) million at March 31, 2012 and December 31, 2011, respectively.

See accompanying notes.

(5)

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

(Unaudited)

(In millions)	Three months ended March 31,	
	2012	2011
Cash flows – operating activities		
Net earnings	\$ 1,587	\$ 1,856
Less net earnings (loss) attributable to noncontrolling interests	12	31
Net earnings attributable to GECC	1,575	1,825
(Earnings) loss from discontinued operations	217	(35)
Adjustments to reconcile net earnings attributable to GECC		
to cash provided from operating activities		
Depreciation and amortization of property, plant and equipment	1,695	1,776
Increase (decrease) in accounts payable	572	1,290
Provision for losses on financing receivables	863	1,140
All other operating activities	(205)	(1,191)
Cash from (used for) operating activities – continuing operations	4,717	4,805
Cash from (used for) operating activities – discontinued operations	(63)	217
Cash from (used for) operating activities	4,654	5,022
Cash flows – investing activities		
Additions to property, plant and equipment	(2,337)	(2,292)
Dispositions of property, plant and equipment	1,825	1,773
Increase in loans to customers	(74,327)	(71,728)
Principal collections from customers – loans	76,912	79,132
Investment in equipment for financing leases	(1,941)	(1,912)
Principal collections from customers – financing leases	3,454	3,833
Net change in credit card receivables	2,468	2,513
Proceeds from sale of discontinued operations	–	1,775
Proceeds from principal business dispositions	84	1,378
Payments for principal businesses purchased	–	(85)
All other investing activities	251	4,218
Cash from (used for) investing activities – continuing operations	6,389	18,605
Cash from (used for) investing activities – discontinued operations	62	(164)
Cash from (used for) investing activities	6,451	18,441
Cash flows – financing activities		

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Net increase (decrease) in borrowings (maturities of 90 days or less)	(1,259)	(2,062)
Net increase (decrease) in bank deposits	(2,641)	1,233
Newly issued debt (maturities longer than 90 days)		
Short-term (91 to 365 days)	9	10
Long-term (longer than one year)	16,758	15,498
Non-recourse, leveraged lease	—	—
Repayments and other debt reductions (maturities longer than 90 days)		
Short-term (91 to 365 days)	(22,551)	(31,011)
Long-term (longer than one year)	(2,477)	(157)
Non-recourse, leveraged lease	(254)	(423)
All other financing activities	(153)	(306)
Cash from (used for) financing activities – continuing operations	(12,568)	(17,218)
Cash from (used for) financing activities – discontinued operations	—	(42)
Cash from (used for) financing activities	(12,568)	(17,260)
Effect of currency exchange rate changes on cash and equivalents	925	804
Increase (decrease) in cash and equivalents	(538)	7,007
Cash and equivalents at beginning of year	76,823	60,399
Cash and equivalents at March 31	76,285	67,406
Less cash and equivalents of discontinued operations at March 31	120	153
Cash and equivalents of continuing operations at March 31	\$ 76,165	\$ 67,253

See accompanying notes.

(6)

General Electric Capital Corporation and consolidated affiliates
Summary of Operating Segments

(In millions)	Three months ended March	
	31, (Unaudited)	
	2012	2011
Revenues		
CLL	\$ 4,442	\$ 4,608
Consumer	3,877	4,823
Real Estate	836	907
Energy Financial Services	239	345
GECAS	1,331	1,325
Total segment revenues	10,725	12,008
GECC corporate items and eliminations	717	1,028
Total revenues in GECC	\$ 11,442	\$ 13,036
Segment profit		
CLL	\$ 685	\$ 554
Consumer	829	1,241
Real Estate	56	(358)
Energy Financial Services	71	112
GECAS	318	306
Total segment profit	1,959	1,855
GECC corporate items and eliminations	(167)	(65)
Earnings from continuing operations attributable to GECC	1,792	1,790
Earnings (loss) from discontinued operations, net of taxes, attributable to GECC	(217)	35
Total net earnings attributable to GECC	\$ 1,575	\$ 1,825

See accompanying notes.

(7)

Notes to Condensed, Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Electric Company (GE Company or GE) owns all of the common stock of General Electric Capital Corporation (GECC). Our financial statements consolidate all of our affiliates – companies that we control and in which we hold a majority voting interest. We also consolidate the economic interests we hold in certain businesses within companies in which we hold a voting equity interest and are majority owned by our parent, but which we have agreed to actively manage and control. See Note 1 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 consolidated financial statements), which discusses our consolidation and financial statement presentation. GECC includes Commercial Lending and Leasing (CLL), Consumer, Real Estate, Energy Financial Services and GE Capital Aviation Services (GECAS).

On February 22, 2012, our former parent, General Electric Capital Services, Inc. (GECS), merged with and into GECC. The merger simplified GE's corporate structure by consolidating financial services entities and assets within our organization and simplifying Securities and Exchange Commission and regulatory reporting. Upon the completion of the merger, (i) all outstanding shares of GECC common stock were cancelled, (ii) all outstanding shares of common stock of GECS and all outstanding shares of preferred stock of GECS held by GE were converted into an aggregate of 1,000 shares of common stock of GECC and (iii) all treasury shares of GECS and all outstanding shares of preferred stock of GECS held by GECC were cancelled. As a result, GECC, which previously has been an indirect wholly-owned subsidiary of GE, became a direct wholly-owned subsidiary of GE. As a result of the merger, GECC became the surviving corporation and assumed all of GECS' rights and obligations and became wholly-owned directly by GE.

Because both GECS and GECC were wholly-owned either directly or indirectly by GE, the merger was accounted for as a transfer of assets between entities under common control. Transfers of net assets or exchanges of shares between entities under common control are accounted for at historical value, and as if the transfer occurred at the beginning of the period. Prior period results are retrospectively adjusted to furnish comparative information. GECC's continuing operations now include the run-off insurance operations previously held and managed in our former parent, GECS, and which are reported in corporate items and eliminations. The operating businesses that are reported as segments, including CLL, Consumer, Real Estate, Energy Financial Services and GECAS, are not affected by the merger. Unless otherwise indicated, references to GECC and GE Capital relate to the entities as they exist subsequent to the February 22, 2012 merger. In addition, during the first quarter of 2012, we announced the planned disposition of the Consumer mortgage lending business in Ireland (Consumer Ireland). This disposition is reported as a discontinued operation, which requires retrospective restatement of prior periods to classify the assets, liabilities and results of operations as discontinued operations.

As a wholly-owned subsidiary, GECC enters into various operating and financing arrangements with GE. Transactions between related companies are made on an arms-length basis, are eliminated and consist primarily of capital contributions from GE to GECC; GE customer receivables sold to GECC; GECC services for trade receivables management and material procurement; buildings and equipment (including automobiles) leased between GE and GECC; information technology (IT) and other services sold to GECC by GE; aircraft engines manufactured by GE that are installed on aircraft purchased by GECC from third-party producers for lease to others; and various investments, loans and allocations of GE corporate overhead costs.

We have reclassified certain prior-period amounts to conform to the current-period presentation. Unless otherwise indicated, information in these notes to the condensed, consolidated financial statements relates to continuing operations.

Accounting Changes

On January 1, 2012, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2011-05, an amendment to Accounting Standards Codification (ASC) 220, Comprehensive Income. ASU 2011-05 introduces a new statement, the Consolidated Statement of Comprehensive Income, which begins with net earnings and adds or deducts other recognized changes in assets and liabilities that are not included in net earnings, but are reported directly to equity, under GAAP. For example, unrealized changes in currency translation adjustments are included in the measure of comprehensive income but are excluded from net earnings. The amendments became effective for the first quarter 2012 financial statements. The amendments affect only the display of those components of equity categorized as other comprehensive income and do not change existing recognition and measurement requirements that determine net earnings.

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On January 1, 2012, we adopted FASB ASU 2011-04, an amendment to ASC 820, Fair Value Measurements. ASU 2011-04 clarifies or changes the application of existing fair value measurements, including: that the highest and best use valuation premise in a fair value measurement is relevant only when measuring the fair value of nonfinancial assets; that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; that in the absence of a Level 1 input, a reporting entity should apply premiums and discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; and that premiums and discounts related to size as a characteristic of the reporting entity's holding are not permitted in a fair value measurement. Adopting these amendments had no effect on the financial statements. For a description of how we estimate fair value and our process for reviewing fair value measurements classified as Level 3 in the fair value hierarchy, see Note 1 in our 2011 consolidated financial statements.

See Note 1 in our 2011 consolidated financial statements for a summary of our significant accounting policies.

Interim Period Presentation

The condensed, consolidated 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 our results of operations, financial position and cash flows. The results reported in these condensed, consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. It is suggested that these condensed, consolidated financial statements be read in conjunction with the financial statements and notes thereto included in our 2011 consolidated financial statements. 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 either a Saturday or Sunday, depending on the business. 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 website, www.ge.com/secreports.

(9)

2. ASSETS AND LIABILITIES OF BUSINESSES HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets and Liabilities of Businesses Held for Sale

In the second quarter of 2011, we committed to sell our Consumer business banking operations in Latvia.

Summarized financial information for businesses held for sale is shown below.

(In millions)	March 31, 2012	At	December 31, 2011
Assets			
Cash and equivalents	\$ 134		\$ 149
Financing receivables – net	399		412
Property, plant and equipment – net	62		81
Goodwill	20		20
Other intangible assets – net	1		7
Other assets	6		8
Other	18		34
Assets of businesses held for sale	\$ 640		\$ 711
Liabilities			
Short-term borrowings	\$ 249		\$ 252
Accounts payable	26		21
Long-term borrowings	4		8
Other liabilities	26		64
Liabilities of businesses held for sale	\$ 305		\$ 345

Discontinued Operations

Discontinued operations primarily comprised GE Money Japan (our Japanese personal loan business, Lake, and our Japanese mortgage and card businesses, excluding our investment in GE Nissen Credit Co., Ltd.), our U.S. mortgage business (WMC), our U.S. recreational vehicle and marine equipment financing business (Consumer RV Marine), Consumer Mexico, Consumer Singapore, our Consumer home lending operations in Australia and New Zealand (Australian Home Lending), and Consumer Ireland. Associated results of operations, financial position and cash flows are separately reported as discontinued operations for all periods presented.

Summarized financial information for discontinued operations is shown below.

(In millions)	Three months ended March	
	2012	2011
Operations		
Total revenues	\$ (1)	\$ 207
Earnings (loss) from discontinued operations before income taxes	\$ (58)	\$ —
Benefit (provision) for income taxes	6	(4)
Earnings (loss) from discontinued operations, net of taxes	\$ (52)	\$ (4)
Disposal		
Gain (loss) on disposal before income taxes	\$ (194)	\$ 11
Benefit (provision) for income taxes	29	28
Gain (loss) on disposal, net of taxes	\$ (165)	\$ 39
Earnings (loss) from discontinued operations, net of taxes	\$ (217)	\$ 35