

GENERAL ELECTRIC CAPITAL CORP
Form 10-Q
August 01, 2003

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 June 30, 2003

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

(State or other jurisdiction of incorporation or organization)
260 Long Ridge Road, Stamford, CT

(I.R.S. Employer Identification No.)
06927

(Address of principal executive offices)

(Zip Code)

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

(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 is an accelerated filer (as defined in Rule 12 b-2 of the Act). Yes No

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At July 31, 2003, 3,985,403 shares of common stock with a par value of \$4.00 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)

General Electric Capital Corporation

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Forward-Looking Statements

This document includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on our current expectations and are subject to uncertainty and

changes in circumstances. Actual results may differ materially from these expectations due to changes in global political, economic, business, competitive, market and regulatory factors.

(2)

Part I. Financial Information

Item 1. Financial Statements

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

(Unaudited)

(Dollars in millions)	Second quarter ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Revenues from services	\$ 12,262	\$ 10,894	\$23,936	\$21,608
Sales of goods	568	899	1,055	1,715
Total revenues	12,830	11,793	24,991	23,323
Interest	2,444	2,335	4,812	4,511
Operating and administrative	3,815	2,966	7,226	6,033
Cost of goods sold	465	822	902	1,564
Insurance losses and policyholder and annuity benefits	2,147	1,990	4,312	3,940
Provision for losses on financing receivables	935	780	1,677	1,410
Depreciation and amortization of equipment on operating leases (including buildings and equipment)	1,099	1,000	2,190	1,947
Minority interest in net earnings of consolidated affiliates	15	27	46	49
Total costs and expenses	10,920	9,920	21,165	19,454
Earnings before income taxes and accounting changes	1,910	1,873	3,826	3,869
Provision for income taxes	(306)	(301)	(604)	(692)

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Earnings before accounting changes	1,604	1,572	3,222	3,177
Cumulative effect of accounting changes (note 4)	—	—	—	(1,015)
Net earnings	1,604	1,572	3,222	2,162
Dividends	(169)	(444)	(350)	(987)
Retained earnings at beginning of period	28,461	23,601	27,024	23,554
Retained earnings at end of period	\$ 29,896	\$ 24,729	\$29,896	\$24,729

See "Notes to Condensed, Consolidated Financial Statements."

(3)

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

(Dollars in millions)	June 30, 2003	December 31, 2002
	(Unaudited)	
Cash and equivalents	\$ 4,913	\$ 6,983
Investment securities	81,450	89,807
Financing receivables:		
Time sales and loans, net of deferred income	158,146	141,775
Investment in financing leases, net of deferred income	58,714	58,994
	216,860	200,769
Allowance for losses on financing receivables	(6,045)	(5,447)
Financing receivables – net	210,815	195,322
Insurance receivables	12,197	14,273
Other receivables – net	17,385	16,388
Inventories	181	208
Equipment on operating leases (at cost) including buildings and equipment, less accumulated amortization of \$14,557 and \$13,407	35,973	35,060
Intangible assets	21,338	20,916
Other assets	69,608	60,485
Assets held for sale (note 5)	22,235	—
Total assets	\$ 476,095	\$ 439,442
Short-term borrowings	\$ 122,126	\$ 122,745

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Long-term borrowings		
Senior	161,509	137,893
Subordinated	884	965
Insurance liabilities, reserves and annuity benefits	84,606	99,537
All other liabilities	29,171	26,169
Deferred income taxes	11,099	10,546
Liabilities associated with assets held for sale (note 5)	19,768	—
	<u>429,163</u>	<u>397,855</u>
Total liabilities		
Minority interest in equity of consolidated affiliates	1,796	1,834
	<u>1,796</u>	<u>1,834</u>
Accumulated gains/(losses) – net		
Investment securities	3,779	1,030
Currency translation adjustments	105	(591)
Derivatives qualifying as hedges	(2,892)	(1,959)
	<u>992</u>	<u>(1,520)</u>
Accumulated non-owner changes other than earnings	992	(1,520)
Capital stock	19	18
Additional paid-in capital	14,229	14,231
Retained earnings	29,896	27,024
	<u>45,136</u>	<u>39,753</u>
Total share owner's equity		
Total liabilities and equity	<u>\$ 476,095</u>	<u>\$ 439,442</u>

See "Notes to Condensed, Consolidated Financial Statements."

(4)

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

(Dollars in millions)	Six months ended June 30 (Unaudited)	
	2003	2002
Cash Flows – Operating Activities		
Net earnings	\$ 3,222	\$ 2,162
Adjustments to reconcile net earnings to cash provided from		
operating activities		
Cumulative effect of accounting changes	—	1,015
Provision for losses on financing receivables	1,677	1,410

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Depreciation and amortization of equipment on operating leases (including buildings and equipment)	2,190	1,947
All other operating activities	1,608	1,601
Cash from operating activities	<u>8,697</u>	<u>8,135</u>
 Cash Flows – Investing Activities		
Increase in loans to customers	(108,420)	(86,100)
Principal collections from customers – loans	99,779	81,303
Investment in equipment for financing leases	(9,463)	(11,417)
Principal collections from customers – financing leases	9,918	8,980
Net change in credit card receivables	(1,610)	(1,398)
Equipment on operating leases (including buildings and equipment):		
–		
additions	(3,043)	(4,934)
–		
dispositions	2,353	2,666
Payments for principal businesses purchased, net of cash acquired	(8,083)	(5,244)
Purchases of securities by insurance and annuity businesses	(15,907)	(18,498)
Dispositions of securities by insurance and annuity businesses	15,628	15,677
All other investing activities	(5,573)	(759)
Cash used for investing activities	<u>(24,421)</u>	<u>(19,724)</u>
 Cash Flows – Financing Activities		
Net decrease in borrowings (maturities 90 days or less)	(4,509)	(35,865)
Newly issued debt – short-term (91-365 days)	738	1,710
Newly issued debt – long-term senior	36,218	56,569
Proceeds – non-recourse, leveraged lease debt	168	585
Repayments and other reductions – short-term (91-365 days)	(16,289)	(12,057)
Repayments and other reductions – long-term senior debt	(1,517)	784
Principal payments – non-recourse, leveraged lease debt	(521)	(321)
Proceeds from sales of investment contracts	4,414	3,805
Cash acquired in assumption of liabilities for policy holder benefits	–	2,406
Redemption of investment contracts	(4,082)	(3,742)
Dividends paid	(350)	(987)

Cash from financing activities	14,270	12,887
Increase (decrease) in cash and equivalents	(1,454)	1,298
Cash and equivalents at beginning of year	6,983	6,784
Cash and equivalents at June 30 ^(a)	\$ 5,529	\$ 8,082

(a) Cash and equivalents at June 30, 2003 includes \$616 million of cash classified as assets held for sale in the Condensed Statement of Financial Position (see note 5).

See "Notes to Condensed, Consolidated Financial Statements."

(5)

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) – companies that we directly or indirectly control (consolidated affiliates). We reclassified certain prior year amounts to conform to the current period presentation.

2. The condensed, consolidated quarterly financial statements 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 consistently 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 actual interim closing dates using a "fiscal" calendar, which requires our businesses to close their books on a Saturday in order to normalize the potentially disruptive effects of quarterly closings on business processes. 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.

3. In November 2002, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. Among other things, the Interpretation requires guarantors to recognize, at fair value, their obligations to stand ready to perform under certain guarantees. FIN 45 became effective for guarantees issued or modified on or after January 1, 2003 and had an inconsequential effect on our financial position as of June 30, 2003 and results of operations for the second quarter and the first six months of 2003.

FIN 46, *Consolidation of Variable Interest Entities* is effective for us on July 1, 2003. Based on the new criteria in the Interpretation, we will consolidate certain entities in our third quarter financial statements. While FIN 46 represents a significant change in accounting principles governing consolidation, it does not change the economic or legal characteristics of asset sales. Important considerations that differentiate FIN 46 entities from others included in our consolidated statements include the following:

- A majority of the assets in FIN 46 entities were previously owned by us. We normally provide financial support to these entities; while the nature of that support differs from entity to entity, it is generally the reason that consolidation is required under FIN 46.

- The assets we sold to FIN 46 entities remain legally isolated and our use of the assets is often restricted.
- Liabilities of FIN 46 entities are expected to be repaid with cash flows generated by the related assets.

We will consolidate approximately \$36 billion of securitized assets at transition and approximately \$15 billion of investment securities related to guaranteed investment contracts. Assets and liabilities in FIN 46 entities differ from other consolidated assets and liabilities, thus our future financial statements will distinguish assets and liabilities that are included solely as a result of FIN 46. Because we will not sell any additional assets to these consolidated FIN 46 entities, these balances will decrease as the assets mature. Our July 1, 2003, consolidation of FIN 46 entities resulted in a \$0.4 billion after-tax charge that will be reported as an accounting change in our third quarter results.

(6)

4. The FASB's Statement of Financial Accounting Standards (SFAS) 142, *Goodwill and Other Intangible Assets*, generally became effective for us on January 1, 2002. Under SFAS 142, goodwill is no longer amortized but is tested for impairment using a fair value methodology. We stopped amortizing goodwill effective January 1, 2002.

Under SFAS 142, we were required to test all existing goodwill for impairment as of January 1, 2002, on a "reporting unit" basis. A reporting unit is the operating segment unless, at businesses one level below that operating segment (the "component" level), discrete financial information is prepared and regularly reviewed by management, in which case such component is the reporting unit.

A fair value approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its fair value. We established fair values using discounted cash flows. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results.

The result of testing goodwill impairment in accordance with SFAS 142, as of January 1, 2002, was a non-cash charge of \$1,204 million (\$1,015 million after tax), which is reported in the caption "Cumulative effect of accounting changes." Substantially all of the charge relates to the IT Solutions business and the GE Auto and Home business, a direct subsidiary of GE Financial Assurance. Factors contributing to the impairment charge were the difficult economic environment in the information technology sector and heightened price competition in the auto insurance industry. No impairment charge had been required under our previous goodwill impairment policy, which was based on undiscounted cash flows.

Intangibles Subject To Amortization

(Dollars in millions)	At June 30, 2003		At December 31, 2002	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Present value of future profits (PVFP)	\$ 3,978	\$ (2,733)	\$ 4,754	\$ (2,676)
Capitalized software	1,255	(532)	1,269	(499)
Servicing assets (a)	3,596	(3,353)	3,580	(3,238)
Patents, licenses and other	960	(534)	826	(499)

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Total	<u>\$ 9,789</u>	<u>\$ (7,152)</u>	<u>\$ 10,429</u>	<u>\$ (6,912)</u>
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(a) Servicing assets, net of accumulated amortization, are associated primarily with serviced residential mortgage loans amounting to \$22 billion and \$33 billion at June 30, 2003 and December 31, 2002, respectively.

Amortization expense related to amortizable intangible assets for the second quarters ended June 30, 2003 and 2002, was \$145 million and \$431 million, respectively. Amortization expense related to amortizable intangible assets for the first six months ended June 30, 2003 and 2002, was \$427 million and \$689 million, respectively. The estimated percentage of the December 31, 2002, net PVFP balance (adjusted for assets held for sale) to be amortized over each of the next five years follows.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
8.1 %	7.8 %	7.4 %	6.9 %	6.4 %

Amortization expense for PVFP in future periods will be affected by acquisitions, realized capital gains/losses and other factors affecting the ultimate amount of gross profits realized from certain lines of business. Similarly, future amortization expense for other intangibles will depend on acquisition activity and other business transactions.

(7)

Goodwill

Goodwill balances follow:

(Dollars in millions)	<u>Commercial Finance</u>	<u>Consumer Finance</u>	<u>Equipment Management</u>	<u>Insurance</u>	<u>All Other GECS and eliminations</u>	<u>Total</u>
Balance, December 31, 2002	\$ 7,987	\$ 5,562	\$ 1,242	\$ 4,176	\$ (1,568)	\$ 17,399
Acquisitions/Purchase						
Accounting Adjustments	98	919	-	47	(18)	1,046
Foreign exchange and other	69	386	82	(219) ^(a)	(62)	256
Balance, June 30, 2003						