

GENERAL ELECTRIC CAPITAL CORP
Form 10-Q
May 04, 2015

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, 2015

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, CT

(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)

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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

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 1, 2015, 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.

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.

TABLE OF CONTENTS

	Page
Forward	
Looking	3
Statements	
Management's	
Discussion and	
Analysis of	
Financial	
Condition and	4
Results of	
Operations	
(MD&A)	
Consolidated	5
Results	
Segment	8
Operations	
GECC	
Corporate	11
Items and	
Eliminations	
Discontinued	11
Operations	
Statement of	
Financial	12
Position	
Financial	
Resources and	15
Liquidity	
Exposures	18
Critical	
Accounting	19
Estimates	
Other Items	20
Controls and	21
Procedures	
Regulations	
and	21
Supervision	
Legal	
Proceedings	22
Financial	
Statements and	24
Notes	
Exhibits	66
Form 10-Q	67
Cross	
Reference	

Index

Signatures 68

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," "will," "would," or "target."

Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about GE's announced plan to reduce the size of its financial services businesses, including expected cash and non-cash charges associated with this plan; expected income; revenues; net interest margin; cost structure; restructuring charges; cash flows; assets; return on capital or assets; capital structure, including Tier 1 common ratio; and dividends.

For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- obtaining (or the timing of obtaining) any required regulatory reviews or approvals or any other consents or approvals associated with GE's announced plan to reduce the size of its financial services businesses;
- our ability to complete incremental asset sales as part of this plan in a timely manner (or at all) and at the prices we have assumed;
- changes in law, economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets, including the impact of these conditions on our ability to sell or the value of incremental assets to be sold as part of this plan as well as other aspects of this plan;
- the impact of conditions in the financial and credit markets on the availability and cost of GECC's funding, GECC's exposure to counterparties and GECC's ability to reduce asset levels as planned;
- the impact of conditions in the housing market and unemployment rates on the level of commercial and consumer credit defaults;
- pending and future mortgage loan repurchase claims and other litigation claims in connection with WMC, which may affect our estimates of liability, including possible loss estimates;
- our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so;
- GECC's ability to pay dividends to GE at the planned level, which may be affected by GECC's cash flows and earnings, financial services regulation and oversight, and other factors;
- the level of demand and financial performance of the major industries and customers GE serves;
- the effectiveness of our risk management framework;
- the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks, including the impact of financial services regulation and litigation;
- adverse market conditions, timing of and ability to obtain required bank regulatory approvals, or other factors relating to GE or Synchrony Financial that could prevent GE from completing the Synchrony Financial split-off as planned;
- our success in completing, including obtaining regulatory approvals for, announced transactions, such as the proposed transactions with Real Estate;
- our success in integrating acquired businesses and operating joint ventures;
- the impact of potential information technology or data security breaches; and
- the other factors that are described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

These or other 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. This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially.

3 2015 1Q FORM 10-Q

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

PRESENTATION

Throughout this MD&A, unless otherwise indicated, we refer to captions such as revenues and earnings from continuing operations attributable to General Electric Capital Corporation (GE Capital or GECC) simply as "revenues" and "earnings." Similarly, discussion of other matters in our consolidated financial statements relates to continuing operations unless otherwise indicated.

We integrate acquisitions as quickly as possible. Only revenues and earnings from the date we complete the acquisition through the end of the following fourth quarter are attributed to such businesses.

We have reclassified certain prior-period amounts to conform to the current-period presentation.

NON-GAAP MEASURES

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered "non-GAAP financial measures" under the SEC rules. For such measures, we have provided supplemental explanations and reconciliations in Exhibit 99 to this Form 10-Q Report.

REFERENCES

The MD&A should be read in conjunction with the Financial Statements and Notes to the consolidated financial statements.

CORPORATE INFORMATION AND WEBSITES

GE's Investor Relations website at www.ge.com/investor-relations and our corporate blog at www.gereports.com, as well as GE's Facebook page and Twitter accounts, including @GE_Reports, contain a significant amount of information about GE, including financial and other information for investors. GE encourages investors to visit these websites from time to time, as information is updated and new information is posted.

4 2015 1Q FORM 10-Q

CONSOLIDATED RESULTS

THE GE CAPITAL EXIT PLAN

On April 10, 2015, our parent company, General Electric Company (GE), announced a plan (the GE Capital Exit Plan) to reduce the size of its financial services businesses through the sale of most of our assets, over the next 24 months, and to focus on continued investment and growth in GE's industrial businesses. Under the GE Capital Exit Plan, which was approved on April 2, 2015 and aspects of which were approved on March 31, 2015, GE will retain certain GECC businesses, principally its vertical financing businesses—GE Capital Aviation Services (GECAS), Energy Financial Services and Healthcare Equipment Finance—that directly relate to GE's core industrial domain and other operations, including Working Capital Solutions and our run-off insurance activities. The assets planned for disposition include Real Estate, most of Commercial Lending and Leasing and all Consumer platforms (including all U.S. banking assets). GE expects to execute this strategy using an efficient approach for exiting non-vertical assets that works for GE's and GECC's debt holders and GE's shareowners. An element of this approach involves a merger of GECC into GE to assure compliance with debt covenants as GECC exits non-vertical assets, and the creation of a new intermediate holding company to hold GECC's businesses after the merger. GE has discussed the GE Capital Exit Plan, aspects of which are subject to regulatory review and approval, with its regulators and staff of the Financial Stability Oversight Council (FSOC) and will work closely with these bodies to take the actions necessary over time to terminate the FSOC's designation of GECC (and the new intermediate holding company, as applicable) as a nonbank systemically important financial institution (nonbank SIFI).

As part of the GE Capital Exit Plan, on April 10, 2015, GECC and The Blackstone Group (Blackstone) or certain of their affiliates entered into a Purchase and Sale Agreement (the Purchase and Sale Agreement) pursuant to which Blackstone will acquire approximately \$22.5 billion of GECC's Real Estate debt and equity portfolio through a combination of asset sales and entity sales (the Transaction) for a purchase price of approximately \$22.5 billion. At closing, Blackstone intends to sell approximately \$10 billion of this portfolio to Wells Fargo & Company. The purchase price, which is payable in cash, is subject to customary price adjustments, and the Transaction is subject to customary closing conditions. In connection with the Transaction, GECC will provide approximately \$3.5 billion of seller financing to Blackstone, which GECC intends to syndicate by mid-2016. The parties expect the Transaction to close in multiple closings before the end of 2015. The Purchase and Sale Agreement may be terminated under certain circumstances, including by either party if the initial debt and equity closings have not occurred on or before September 1, 2015 or December 31, 2015, respectively, except in certain circumstances, or by Blackstone upon payment of a customary termination fee.

GECC also has letters of intent with other buyers for the majority of its remaining commercial real estate assets, which, combined with the Blackstone deal, are valued at approximately \$26.5 billion.

As part of the GE Capital Exit Plan, on April 10, 2015, GE and GECC entered into an amendment to their existing financial support agreement. Under this amendment (the Amendment), GE has provided a full and unconditional guarantee (the Guarantee) of the payment of principal and interest on all tradable senior and subordinated outstanding long-term debt securities and all commercial paper issued or guaranteed by GECC identified in the Amendment. In the aggregate, the Guarantee applied to approximately \$210 billion of GECC debt as of April 10, 2015. The Guarantee replaced the requirement that GE make certain income maintenance payments to GECC in certain circumstances. GECC's U.S. public indentures were concurrently amended to provide the full and unconditional guarantee by GE set forth in the Guarantee.

In connection with the GE Capital Exit Plan, GE estimates it will incur approximately \$23 billion in after-tax charges through 2016, approximately \$6 billion of which are expected to result in future net cash expenditures. These charges are expected to relate to: business dispositions, including goodwill allocations (approximately \$13 billion), tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets (approximately \$7 billion), and restructuring and other charges (approximately \$3 billion).

We recorded \$16.1 billion of after-tax charges (\$13.8 billion of which is attributable to continuing operations and \$2.4 billion of which is attributable to discontinued operations) in the first quarter of 2015 related to the GE Capital Exit Plan. The first quarter charges recorded in continuing operations include tax expense related to expected repatriation of foreign earnings and write-off of deferred tax assets (\$6.0 billion), asset impairments due to shortened hold periods (\$5.0 billion), and charges on businesses held for sale (\$2.8 billion), including goodwill allocation.

It is expected that as a result of the GE Capital Exit Plan, the GE Capital businesses that will remain with GE will account for about \$90 billion in ending net investment (ENI), excluding liquidity, including about \$40 billion in the U.S. ENI is a metric used to measure the total capital invested in the financial services businesses. GE Capital's ENI, excluding liquidity at March 31, 2015 was \$303 billion.

5 2015 1Q FORM 10-Q

REVENUES AND EARNINGS

Revenues decreased 39% in the three months ended March 31, 2015 primarily due to the effects of the GE Capital Exit Plan.

Earnings decreased unfavorably in the three months ended March 31, 2015 primarily due to charges associated with the GE Capital Exit Plan.

SIGNIFICANT DEVELOPMENTS IN 2015

· The GE Capital Exit Plan – see above.

Australia and New Zealand (ANZ) Consumer Lending - During the first quarter of 2015, we signed an agreement to sell our consumer finance business in Australia and New Zealand to a consortium including KKR, Varde Partners and Deutsche Bank for approximately 6.8 billion Australian dollars and 1.4 billion New Zealand dollars.

· Milestone Aviation Group – On January 30, 2015, GECAS acquired Milestone Aviation Group, a helicopter leasing business, for approximately \$1.8 billion.

Synchrony Financial – In connection with Synchrony Financial's planned separation from GE, Synchrony Financial filed the related application to the Federal Reserve Board on April 30, 2015. For a further discussion of the Synchrony Financial transaction, see the Synchrony Financial annual report on Form 10-K for the year ended December 31, 2014 and the quarterly report on Form 10-Q for the three months ended March 31, 2015.

· Dividends – GECC paid quarterly dividends of \$0.5 billion to GE in the three months ended March 31, 2015.

OTHER CONSOLIDATED INFORMATION

INCOME TAXES

Income taxes have a significant effect on our net earnings. As a global commercial enterprise, our tax rates are affected by many factors, including our global mix of earnings, the extent to which those global earnings are indefinitely reinvested outside the United States, legislation, acquisitions, dispositions and tax characteristics of our income. Our tax rates are also affected by tax incentives introduced in the U.S. and other countries to encourage and support certain types of activity. Our tax returns are routinely audited and settlements of issues raised in these audits sometimes affect our tax provisions.

GE and GECC file a consolidated U.S. federal income tax return. This enables GE to use GECC tax deductions and credits to reduce the tax that otherwise would have been payable by GE. The GECC effective tax rate for each period reflects the benefit of these tax reductions in the consolidated return. GE makes cash payments to GECC for these tax reductions at the time GE's tax payments are due.

	Three months ended March 31	
(Dollars in billions)	2015	2014

(Benefit) provision for income taxes	\$6.2	\$0.3
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COMMENTARY – THREE MONTHS ENDED MARCH 31, 2015 VERSUS 2014

The GECC income tax rate for the first quarter of 2015 is not meaningful. The negative first quarter tax rate of 97.6% is caused by comparing the positive tax expense of \$6.2 billion with the pre-tax loss of \$6.3 billion resulting in a negative tax rate. As discussed in Note 7 to the consolidated financial statements, during the first quarter of 2015 in conjunction with the GE Capital Exit Plan, we incurred tax expense of \$6.0 billion related to expected repatriation of foreign earnings and write-off of deferred tax assets. The increase in the income tax expense from \$0.3 billion for the first quarter of 2014 to \$6.2 billion for the first quarter of 2015 is primarily due to the tax impacts, discussed in Note 7 to the consolidated financial statements, related to the GE Capital Exit Plan.

The effective tax rate in future periods is expected to increase as a result of changes in our income profile due to lower earnings as we execute on the GE Capital Exit Plan.

BENEFITS FROM GLOBAL OPERATIONS

Absent the effects of the GE Capital Exit Plan, our effective income tax rate is lower than the U.S. statutory rate primarily because of benefits from lower-taxed global operations, including the use of global funding structures. There is a tax benefit from global operations as non-U.S. income is subject to local country tax rates that are significantly below the 35% U.S. statutory rate. These non-U.S. earnings have been indefinitely reinvested outside the U.S. and are not subject to current U.S. income tax. The rate of tax on our indefinitely reinvested non-U.S. earnings is below the 35% U.S. statutory rate because we have significant business operations subject to tax in countries where the tax on that income is lower than the U.S. statutory rate and because GECC funds certain of its non-U.S. operations through foreign companies that are subject to low foreign taxes. Historically, the most significant portion of these benefits depends on the provision of U.S. law deferring the tax on active financial services income, which, as discussed below, is subject to expiration. A substantial portion of the remaining benefit related to business operations subject to tax in countries where the tax on that income is lower than the U.S. statutory rate is derived from our GECAS aircraft leasing operations located in Ireland. No other operation in any one country accounts for a material portion of the remaining balance of the benefit.

We expect our ability to benefit from non-U.S. income taxed at less than the U.S. rate to continue subject to changes in U.S. or foreign law, including the expiration of the U.S. tax law provision deferring tax on active financial services income. In addition, since this benefit depends on management's intention to indefinitely reinvest amounts outside the U.S., our tax provision will increase to the extent we no longer indefinitely reinvest foreign earnings.

SEGMENT OPERATIONS

Operating segments comprise our four segments focused on the broad markets they serve: Commercial Lending and Leasing (CLL), Consumer, Energy Financial Services and GECAS. The Chairman allocates resources to, and assesses the performance of, these four businesses. In addition to providing information on segments in their entirety, we have also provided supplemental information for the geographic regions within the CLL segment.

Corporate items and eliminations include unallocated Treasury and Tax operations; Trinity, a group of sponsored special purpose entities; certain consolidated liquidating securitization entities; the effects of eliminating transactions between operating segments; results of our run-off insurance operations remaining in continuing operations attributable to GECC; unallocated corporate costs; certain non-allocated amounts determined by the Chairman; and a variety of sundry items. Corporate items and eliminations is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements.

Segment profit is determined based on internal performance measures used by the Chairman to assess the performance of each business in a given period. In connection with that assessment, the Chairman may exclude matters such as charges for restructuring; rationalization and other similar expenses; acquisition costs and other related charges; technology and product development costs; certain gains and losses from acquisitions or dispositions; and litigation settlements or other charges, for which responsibility preceded the current management team.

Segment profit excludes results reported as discontinued operations, the portion of earnings attributable to noncontrolling interests of consolidated subsidiaries, GECC preferred stock dividends declared and accounting changes. Segment profit, which we sometimes refer to as "net earnings", includes interest and income taxes. GE allocates certain corporate costs to its segments based on an estimate of expected benefit to the respective segment relative to total GE. Factors considered in the determination of relative benefit include a segment's direct costs and number of employees compared to the total direct costs and number of employees for all segments.

We have reclassified certain prior-period amounts to conform to the current-period presentation.
8 2015 1Q FORM 10-Q

SUMMARY OF OPERATING SEGMENTS

(In millions)	Three months ended March 31		
	2015	2014	V%
Revenues			
CLL	\$1,556	\$3,582	(57)%
Consumer	2,058	3,602	(43)%
Energy Financial Services	285	469	(39)%
GECAS	1,282	1,345	(5)%
Total segment revenues	5,181	8,998	(42)%
GECC corporate items and eliminations	801	887	(10)%
Total revenues	\$5,982	\$9,885	(39)%
Segment profit (loss)			
CLL	\$(3,847)	\$564	U
Consumer	(2,775)	786	U
Energy Financial Services	35	153	(77)%
GECAS	307	352	(13)%
Total segment profit (loss)	(6,280)	1,855	U
GECC corporate items and eliminations	(6,264)	(162)	U
Earnings (loss) from continuing operations attributable to GECC	(12,544)	1,693	U
Preferred stock dividends declared	-	-	-
Earnings (loss) from continuing operations attributable to GECC common shareowner	(12,544)	1,693	U
Earnings (loss) from discontinued operations, net of taxes	(2,201)	252	U
Net earnings (loss) attributable to GECC common shareowner	\$(14,745)	\$1,945	U

(In millions)	March 31, 2015	December 31, 2014	March 31, 2014
Assets			
CLL	\$156,254	\$172,380	\$175,059
Consumer	123,022	135,987	131,720
Energy Financial Services	16,139	15,467	15,943
GECAS	46,902	42,625	45,118
GECC Corporate items and eliminations	134,143	134,946	143,997
Total assets	\$476,460	\$501,405	\$511,837

ADDITIONAL INFORMATION - GEOGRAPHIC OPERATIONS OF CLL

(In millions)	Three months ended March 31	
	2015	2014
Revenues		
Americas	\$1,133	\$2,394
International	426	1,229
Other	(3)	(41)

Segment profit (loss)

Americas	\$ (2,084)	\$ 485
International	(1,722)	152
Other	(41)	(73)

(In millions)

	March 31, 2015	December 31, 2014	March 31, 2014
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Total assets

Americas	\$97,000	\$ 103,884	\$ 104,007
International	54,955	64,194	66,751
Other	4,299	4,302	4,301

9 2015 1Q FORM 10-Q

COMMENTARY

COMMERCIAL LENDING AND LEASING

CLL 2015 revenues decreased 57% and net earnings decreased in the three months ended March 31, 2015. Revenues decreased primarily as a result of estimated losses on businesses classified as assets of businesses held for sale (\$1.8 billion) and organic revenue declines (\$0.1 billion). Net earnings decreased reflecting higher impairments (\$3.2 billion) and higher provisions for losses on financing receivables (\$1.2 billion). These decreases are primarily related to the reclassification of assets within CLL to assets of businesses held for sale, including goodwill allocation, and financing receivables held for sale recorded at the lower of cost or fair value, less cost to sell, and asset impairments due to shortened hold periods in connection with the GE Capital Exit Plan.

CONSUMER

Consumer 2015 revenues decreased by 43% and net earnings decreased in the three months ended March 31, 2015. Revenues decreased as a result of higher impairments (\$1.4 billion). Net earnings decreased as a result of higher provisions for losses on financing receivables (\$2.1 billion), higher impairments (\$1.2 billion) and core decreases (\$0.2 billion). These decreases are primarily related to the reclassification of assets within Consumer to financing receivables held-for-sale recorded at the lower of cost or fair value, less cost to sell, and asset impairments related to equity method investments in connection with the GE Capital Exit Plan.

ENERGY FINANCIAL SERVICES

Energy Financial Services 2015 revenues decreased 39% and net earnings decreased 77% in the three months ended March 31, 2015. Revenues decreased as a result o