Conference Call Transcript

GE - General Electric 2Q 2008 Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the General Electric second-quarter 2008 earnings conference call. At this time, all participants are in listen-only mode. My name is Lauren and I will be your conference coordinator today. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded. I would now like to turn the program over to your host for today's conference, Dan Janki, VP of Investor Communications. Please proceed.

Dan Janki - ***General Electric - VP, Investor Communications***

Thank you, Lauren. First of all, I would like to welcome everyone. JoAnna and I are pleased to host today's conference call. The press release went out this morning at 6:30 with our financial information. That, along with today's presentation and supplemental financials are available at our investor website at www.GE.com/investor. You can follow along via the webcast or you can download and print the information.

Today's presentation does contain forward-looking statements based on the world and economic environment as we see it today and it is subject to change.

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We will be going through today in the presentation an update on second-quarter operations and financial results and outlook on third quarter. To do that, we have our Chairman and CEO, Jeff Immelt and our Vice Chairman and CFO, Keith Sherin. So I would like to turn it over to Jeff to get us started.

Jeff Immelt - ***General Electric - Chairman & CEO***

Great, Dan, thanks. Welcome, everybody. Just to go straight to the overview page. We believe we had a solid performance in a tough environment, delivering $0.54 per share and continuing operations in line with guidance. We're really driven by global revenue growth of 24%, offsetting a sluggish US economy and our long-term positioning of the Company outside the United States has really benefited us in the second quarter of '08.

The industrial businesses I think actually did quite well. We had a gain on the JV of our Hitachi nuclear business in the second quarter last year, but if you take that away, the industrial earnings growth was actually fairly strong. Infrastructure leads the way and Keith will go through more details on that later and Healthcare and NBCU were in line or slightly better than expectations.

If you look at our financial service earnings, I think particularly versus their peers, they were both above our own expectations and we believe compare favorably to the broader industry. Commercial Finance was up 7%, GE Money down 9% and we will spend some time today just going through the business model of risk management, attractive origination, AAA funding, originating for our own balance sheet and we will go through that in more details.

As we said in the past, as we have gains, we will apply them to restructuring. We had about $300 million of gains on business dispositions in the quarter and we did about $400 million of restructuring. So the business fundamentals remain strong. We are positioned for long-term growth. We remain on track for guidance for the year of $2.20 to $2.30 and again, I think we executed well in a tough environment.

If you go to the next page, we continue to execute on our long-term strategy. We made several portfolio announcements in the quarter. First, in GE Money, you read this morning we reached agreement on disposition of GE Money including Lake. This was something that we talked about last year. Keith will give you more details. The private label credit card disposition is progressing. It is a good business, fundamentally strong. Slower than we expected, but we believe we will get it done and we assigned a Europe Santander swap of one of their commercial finance banks for some of our consumer assets in Europe.

We announced the intent to explore distribution of Consumer and Industrial to our shareowners. Now, we talked about appliances in May. We have received great interest in our appliance business. A lot of the strategics are global buyers. This is a tremendous strategic opportunity for them to build a strong North American operation. However, it was our view that the total Lighting and Industrial business are very interwoven in the business and the tax-free spend to our shareowners may be the best approach and again, we will go through that in a little bit more detail.

We closed the Hydril and Whatman transactions. These are sweet spots for our Oil and Gas and Healthcare businesses and we will continue to do acquisitions like that, remain opportunistic in financial services, closing the Merrill Capital deal and Citi will close in July. And we announced the Weather Channel investment with NBCU in the lead, so we continue to invest in our great media operations.

We have had an initiative called *growth as a process* for four or five years. That pays dividends in a slow economy like this. Our total orders remain robust at up 8%. Our equipment backlog up 25%. I would like to highlight just the strength in services, which I think has always been a big part of our business model. Service revenues up 18%, service orders up 19%, CSA backlog up 17%. This is high margin from the installed base and we think this bodes well for the future. Organic growth up 5% and industrial organic growth up 9%. And as I said earlier, global revenues up 24%, now more than half of our overall revenues.

From an operating standpoint, solid Infrastructure margin expansion of 60 basis points. We continue to drive restructurings and we are on track for our cost goals for the year and we will go through that in a little bit more detail and our industrial cash flow from operating activities was up 5%, driven by working capital improvements.

Just quickly before I turn it over to Keith. Some of the key operating performance metrics that we talk about, solid growth in orders, revenues and assets. So again, even in a sluggish economy, we think our process capabilities remain very strong. Earnings that are on expectations, returns of 17.6%, margin rates of 16.4%, down 40 basis points from last year and again, Infrastructure was up, Healthcare and NBCU roughly on plan and we really were dragged down by Consumer and Industrial and that is really a pricing story as much as anything else. We did substantial cost-out

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work in C&I in the quarter and cash on plan with a very strong balance sheet and solid AAA. So again, we believe this is a solid performance in a difficult environment. I'll now turn it over to Keith to kind of go through some of the details.

Keith Sherin *- General Electric - Vice Chairman CFO*

Jeff, thanks. Let me start with two recent announcements. First, this morning, we're really pleased that we have reached an agreement with Shinsei Bank to sell our GE Money business in Japan. Some of you may have seen the announcement. This includes the Lake personal loan business that we talked about selling last year.

In addition to the personal loan business, we have expanded this transaction. It is larger than the original announcement. We have included an additional $1.7 billion of mortgage and credit card assets and Shinsei is going to take over 1100 branches, all our employees, all the assets and with that sale, with the additional assets and the complete sale, we recorded an additional $200 million of charge in disc ops in Q2 and we anticipate this is going to close in the third quarter. So we have been working on this for quite awhile.

It is terrific that the team was able to execute on lightening up on consumer assets in Japan in a pretty tough environment and Shinsei has got a win here. They really want to get into the consumer business and they have got a great platform and they really like the quality of the portfolio and the people and the systems and the team that they are getting. So we are thrilled to have that signed up today.

On the right side, you have all seen the announcement on our intention to have, as the primary focus on our business development, the distribution of the C&I business to our shareholders. It is going to be an efficient transaction for GE and shareholders. We believe shareholders are going to get upside from being able to participate in the benefits of the entire C&I business. It is not really dependent upon M&A or equity market conditions. We will have some capital redeployment and it increases the overall Company margins and long-term growth rate, so we are targeting first-half '09 execution. We are really pleased with the Shinsei agreement and we are starting to work on the C&I transaction.

Let me start with orders. We continue to have really strong absolute orders. On the left side, as we always show you, is major equipment. For the second quarter, we had $13.7 billion of orders, that was up 4%. We always talk about how the orders are lumpy on a quarterly basis, but you can see some pretty good Vs here in Aviation and Energy.

Transportation had a $1.5 billion order last year that didn't repeat, but their outlook for additional equipment orders is very good and absolute order levels at these amounts are very strong. The orders grew by 30% more than the shipments as we continue to build backlog. Just in Infrastructure alone, the backlog now is over $50 billion. It is up 29% just from the start of the year. So when you talk about how is the global economy, I think when you look at these long cycle orders continuing to come in at these levels and exceeding shipments and building backlog, we feel like it is pretty strong and continues to remain robust.

In the middle is services. We had service orders of $9.5 billion, up 19%. It was a tremendous services quarter. You can see the breadth across all the businesses, up double digit. Aviation was up 14%. The commercial spares rate in the quarter was $18.6 million a day, $18.6 million a day versus $18.4 million, up 1%. But the overhaul was up 31%. Military services were up 24%. Energy service orders were up 19%. Just an incredibly broad service performance in the quarter and that bodes well for the future. It also reflects the installed base that we have built.

And on the right side, as you would expect, the flow orders of $4.1 billion were down 3% organically. You can see appliances had a tough market. Retail was down 7%. Contract was down 15% reflecting housing and Enterprise Solutions was up 1%. So overall orders continue to be driven by just great infrastructure demand and we continue to build more backlog.

Next is a summary of the second quarter. I am going to then cover the Industrial business and then follow with the financial business, but on the left side is the summary of continuing operations. We had very strong top-line revenues of $46.9 billion, were up 11%. You can see it was driven by the industrial sales, which were up 15%. Earnings of $5.4 billion and earnings per share on a continuing basis of $0.54 with the effects of the buyback were flat.

Net earnings, which included the impact of the discontinued operations that I talked about to complete the exit of the Japan business, were at $0.51, overall down 2%. Our GE cash flow year-to-date is $9.3 billion, down $20 billion. I will show you how that comes together in a few pages and the industrial cash flow, as Jeff mentioned, $7.3 billion, up 5%. Basically we don't have a repeat of the Insurance dispositions from last year.

Now the consolidated tax rate for the quarter came in at 16%, in line with the first quarter and the previous guidance for the year and for the total year, our guidance remains in line with the 16% first-half rate, about flat with last year.

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And on the right side, you can see the business results. Great performance in Infrastructure. I will go through each of these in a few pages. Commercial Finance was up 7%, better than guidance. GE Money was down 9%, but also better than guidance and NBCU and Healthcare came in about as expected. And we had a tough quarter in Industrial Products driven by C&I and that was lower than expected. So overall, $7.6 billion of segment profit, up 7%, very strong performance in this environment.

Next, a few items that were in the businesses and in corporate around gains and restructuring. I'll start with three points on the left side. First, there is no repeat of the 2007 Hitachi gain, which was $500 million after-tax in corporate last year and we are comparing to that on the industrial side.

Second, we do have about $0.03 of gains in the business segment results this year. There are four items. Garanti founder share gain is in GE Money at $89 million after-tax. We sold 9% of Penske. We are down to 51% ownership in Commercial Finance to Penske and that was $93 million in Commercial Finance. We formed a JV in Water with Pentair and a very nice strategic transaction that resulted in a gain of $52 million. That is in Infrastructure and we sold the Sundance Channel and NBCU and that was about $61 million after-tax. So those gains, the four gains that are in the businesses, were more than offset by the restructuring and other charges of $400 million after-tax and the details are on the right side.

We continue to work on the cost structure of the Company, taking out costs in C&I, Commercial Finance and Infrastructure. We continue to reduce our footprint and streamline our organizations and we had some other items, including purchase accounting and a C&I extended warranty contract. But overall, we executed $0.02 more restructuring than we had planned and this obviously continues to help us improve our earnings going forward.

Let me go into some of the industrial businesses. First is Infrastructure. In the second quarter, the Infrastructure results were really terrific. Revenues of $17.6 billion, up 26%. Segment profit of $3.2 billion, up 24%. You can see the key business results down the left side and in the box on the bottom left, you can see that, if you look at the industrial businesses in the Infrastructure segment without the verticals, the revenues up 24% and the segment profit is up 29%, nice leverage. So good performance.

Some of the business dynamics are on the right side and I thought what I would do is go into more detail on Aviation and Energy, start with Aviation. Revenues up 21%, segment profit up 10%, pretty good orders. Total orders of $5.4 billion were up 12% for Aviation. Commercial engines of $1.6 billion were down 8%, but again you are dealing with some pretty tough comparisons for the GEnx wins last year and the GE90 wins. Military engine orders were up 62%, driven by some Navy F-18 orders. The product backlog continues to grow. Commercial engine orders for the quarter were 113% of the sale. So again, the book to bill is growing backlog and we ended the quarter with $20.5 million in backlog, up 22% from last year.

In terms of revenues of $4.9 billion, we had commercial engine revenues up 29%, so very strong shipments. We shipped 59 more commercial engines than in the prior year. The service revenues were up 23%, which is nice. Commercial was up 11%. We had good strong parts sales. Spare parts sales per day were $19.4 million versus $17.5 million a year ago, up 11% and the military engines were up 16%.

Smiths has performed very well. We added $640 million of sales, up five points and the operating profit had a similar profile to Q2. It's up double digit. It is driven by Smiths about five points and driven by core operations about five points. So overall, a pretty positive quarter in Aviation.

Energy just continues to be extremely strong. John Krenicki and his team had another great quarter of revenues, up 35%, segment profit up 37%. The orders in Energy continue to be excellent. The total orders of $8.9 billion are up 36% in the quarter. Major equipment orders were up 47%. We had $3.2 billion of thermal orders. That is up 39%. So we had good gas turbine orders globally. The thermal backlog is at $9 billion, up 90% from a year ago, so we are seeing global demand continue. The wind orders just are continuing to be really strong. We had $1.3 billion. That is up 58%. The backlog now in wind is $14.5 billion. It is up more than three times from a year ago. So just tremendous renewable performance and an amazing renewable portfolio here in the Energy business.

Overall PowerGen orders, price was up 5% for the quarter and services were also great. Service orders were up 19% to $3.2 billion. Revenues at $7 billion were up 35%. Thermal revenue was up 69%. We shipped 44 gas turbines in the quarter, which was up from 41 last year and the price was up 4%. Wind, we shipped 672 units versus 597. Service revenues were up 19%. Good, broad services performance in both transactional services and contractual services. Op profit was up 37%. That is driven by all that volume I talked about in price at PowerGen. Overall, just a broad-based excellent quarter.

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You can see Oil and Gas had a great quarter with strong productivity and synergies from Vetco. Vetco is performing very well, great demand for subsea. Transportation had a strong quarter, driven by international and mining equipment and the asset quality of the verticals continues to be solid. We have zero non-earning assets. That is a great tribute to the teams there to be able to manage and deploy and redeploy globally. And finally, overall, if you just look at Infrastructure, it continues to be the strength at GE based on tremendous global demand.

It is great to report next on Healthcare. They had a great quarter. We feel very positive about it. Revenues of $4.5 billion, up 11%. Segment profit of $747 million was up 8%. A little tailwind from the revenue rec adjustment last year, but still ahead of guidance, which the team did a nice job. Orders trends are also improving. Orders are up 10% and the diagnostic imaging orders were up 8%. Again, it is a similar story across the Company. International was up 15% and the Americas were up 1%. But good performance in surgery, up 22%. It is great to have OEC shipping. Life Sciences up 29% and MDx up 5%. Services also had a great quarter, up 13%, a strong balanced growth in DI and Clinical Systems and Healthcare IT and in Life Sciences. So we feel good about the order performance and the trends there.

On the right side in the quarter, we shipped 700 units out of OEC, which is a nice performance and we are on track for 1200 unit shipments in the second half of about 600 each in the third and fourth quarters is kind of the estimate today. Good news here is, there is in a declining revenue, is that the decline in revenue is slowing. We are down 7% in the quarter in the US and if you look at -- US DI was down 6% as it shows here versus if you look at the last five quarters, we have been down double digits. So we are seeing a down to single digit and good momentum with new products coming in the third and fourth quarter in both MR and CT and also in clinical systems. We feel pretty good about that.

The strength to Healthcare continues to be global. DI international was up 24. Life Sciences international up 31%, a very strong performance and services revenues were strong globally, up 11%. So good news in the Senate, the Medicare bill passed without any imaging cuts and overall good results in a challenging US environment, driven by continued strong global growth. So a nice job by the Healthcare team.

Industrial Products in total had a tough quarter. Revenues up 2% and segment profit down 32%, but this is a mix story. Just like in the first quarter, the results need to be split between the consumer and industrial business and enterprise solutions. On the left side, you can see some of the commercial trends dealing with the US appliance industry, core was down 7% in units. Total was down 5% and you can see just this business was really impacted by housing. Housing starts in June were down 30%. We obviously have a great position in the contract channel related directly to housing.

In terms of orders, it is a similar picture to the other parts of GE. The US orders were down 7%, offset by global growth, great performance in Asia and Europe and Latin America and one other impact here for appliances, we had over $70 million of commodity inflation. The team is raising prices, but we only recovered about half of that in the quarter, so we have got more work to do.

On the right side, the positive story was Enterprise Solutions. Revenues up 20%, segment profit up 20%, driven by a continued strong performance in our Sensing and Inspection businesses and our digital energy businesses, but that wasn't enough to offset the pressure in consumer and Industrial. Revenues were down 3%. Segment profit was down 55%. We have responded to the inflationary inputs, as we said. We did have positive price in the quarter, but we lost some core share, about two points and the volume was down 9%, which really drove this profit down. It is a tough domestic market. There is no question the US revenues were down. US industrial revenues were down as well, but offset by strong global growth.

We are doing a lot of restructuring in C&I. To date, we have announced 16 plant closures and 3600 employee headcount reductions. But at the end of the day, the op profit was down 30% and C&I is down. 55% was partially offset by enterprise solutions up 20%. So we are operating in a tough US environment, driven by the consumer and we are getting some benefits of the stronger global growth.

Next is NBC. I'm pleased to report that NBC delivered their seventh quarter in a row of positive earnings growth. If you look at revenues of $3.9 billion, up 7% and segment profit at $900 million, up 1%. Just as I go around the different parts of the network and local stations, we're down about 2% in revenue but flat in op profit. The dynamics are our TV studio had another positive quarter based on hits like *The Office* and *House*. News remained number one in the quarter and while prime ratings were down about 10%, the overall trade-off on lower costs of programming was positive in the quarter and that was partially offset by the continued softness we see in local, which was down about $40 million.

The strength in NBC continues to be in cable. They delivered excellent results. Op profit was up about 13%. USA was number one for the eighth quarter in a row. Bravo, Sci-Fi, Oxygen had the best second-quarter ratings ever. MSNBC also had the best second-quarter ratings ever and the prime ratings are up 52% year-to-date. A great performance by the team.

On the right side, Film and Parks, we did have a nice start to the summer. Five of our six second-quarter movies met or exceeded expectations, but the release schedule did create some timing pressure on earnings as we have significant advertising and promotion spend for both the 2Q

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movies that happened and the 3Q upcoming movies. For the parks, we saw favorable spending, but the attendance was down about 1% in Orlando and 11% in LA, partly impacted by the fire we had out there.

We also had very good news in the upfronts this year. We expect to close out with about $4.3 billion of commitments for the '08/'09 season versus $4 billion for the '07/'08 season. That is a great performance by the team. The network will be up about 2% and cable will be up about 25%. So that bodes well for the future.

And finally, the Olympics are four weeks away. We are really excited about it. We expect about $1 billion in advertising, $850 million at the network plus cable and then another $150 million at the local stations. So that we are looking forward to, so a lot of positive energy around the Olympics today. We are excited about it. And in addition, we have our Olympic top sponsorship where we have sold over $700 million of GE products. Industrial sales has partnered with the International Olympic Committee. So the summary for NBC is robust cable growth, film positioned for a nice second half, a very strong second half and another on-track quarter.

One page, an operations update here. The left side is the operating profit rate. The rate is down 40 basis points in the quarter, but with our growth, with our revenue growth, we still grew our op profit dollars by over $500 million. So a good performance overall in terms of generating more profit dollars. Our pricing actions have more than offset inflation. That is positive 20 basis points. We are getting productivity. That is about 30 basis points. We still have a drag from growing our equipment businesses at two times their service businesses and with a lower margin and equipment, that is a drag of about 30 basis points. But the biggest drag in the quarter was the C&I results and you can just see that.

Infrastructure grew the margin by 60 basis points, a nice performance with tremendous top-line growth and our current call for the total year is about 16%, down 60 basis points, mostly driven by the lower C&I results that we have had and that we are forecasting.

In the middle is our update on the $1 billion incremental base cost reduction at the half. We have realized about $400 million of that. We are on track for the $1 billion. It is split about 60% industrial and 40% financial. And just from 2007, the beginning of last year, through the second quarter, we have reduced 11,300 jobs through restructuring. Those are completed programs, not announcements, so we continue to take out structural costs in the Company.

And on the right side is our industrial cash flow from operating activity. We delivered $7.3 billion of CFOA. That is our industrial net income plus our depreciation, plus $1.5 billion of additional cash and working capital, and that is while we grew our industrial sales 11%. And just as a point, if you look at our working capital turnover performance, in 2004 we had 10 turns, and in the second quarter of 2008, our turns were over 16 times. I think that is pretty strong execution around working capital while growing the Company.

So we have a strong focus on executing price everywhere in the Company to more than recover inflation, and continuing to improve our structural costs.

Cash in total, I mentioned it is $9.3 billion. This is just a split we give you every quarter between GE Capital dividend and industrial CFOA. The overall cash is down because we don't have any special dividend from Insurance dispositions this year to compare to last year, but the industrial CFOA is up 5% at the half. That is slightly ahead of our internal plan.

And on the right side is the cash balance walk that we give you every quarter. You start with the $6.7 billion, you add the cash flow from the left side over, $9.3 billion. We take out the dividends we paid of $6.2 billion. We have repurchased $2.5 billion of stock so far this year. Our plant and equipment reinvestment, so $1.6 billion at the half.

We did close two acquisitions, Hydril & Whatman. That is about $1.5 billion and we paid down some debt at the beginning of the year based on the bond we raised last year at the end of the year from corporate. So we are on track for the 10% total year industrial CFOA of about $17.5 billion and on track for the total CFOA, including the GECS dividend of 40% at $22 billion.

Now before I get into the results of the two financial services segments for the quarter, I want to provide just a couple of updates. First on this page for financial services, we do know what our business model is. We feel great about our competitive position and about our sustainability. I thought I would just list the major businesses down the left side, the percent of assets in those businesses and just talk about the business model that we feel great about.

Capital Solutions at the top of this bar, this is a midmarket lessor. It has got a million customers. It is very diversified and we are senior and secured. We know the assets and we directly underwrite the assets in this segment.

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Corporate Finance, 20% of the assets, it is also a midmarket focus. We have incredible credit and restructuring expertise here. We underwrite specific loans for companies and assets we know.

Real Estate, 14%, world-class underwriting. We are very focused on supply and demand on every property we invest in whether it is debt or equity. We are senior secured on the debt side. We have low loan to values and the average property size in the portfolio is $10 million. So again, another portfolio of incredible diversification.

The verticals, deep domain expertise, principally energy and aviation here as you know, strong underwriting portfolio management. Just as an example in aviation, we have been through over 200 bankruptcies in the last 10 plus years and we have great global asset management to be able to redeploy and take advantage of supply/demand in other parts of the world and that team has done a great job.

Consumer, 35% both secured and unsecured. We have over 130 million accounts. The average balance is $1600, so incredible diversification and about half of that is secured, whether it is mortgages or auto loans and the other half is unsecured based on credit scoring and risk management and we are at 50 plus countries. So an incredibly diversified global business.

And just on the right side, our focus in financial services, we want to be great at origination. We have over 10,000 originators. That is a real competitive advantage, hard to replicate or compete with. We underwrite to hold. The businesses, everything we bring in from a credit perspective is looked at to put on our books. Sometimes we can sell it out, but we underwrite it as if we are going to put it on our books and hold it.

We have got great risk management. Our loss averages over the last 20 years have been far below the banks. We manage the Company as a AAA from the Board of Directors, down to the Capital Board, down to the management teams. Everything we do is about making sure we keep it AAA and I will show you more on that on the next page.

We are very disciplined on capital allocation. We run a checkbook. Every month, we look at what the potential deals are, where do you put the equity based on available equity self-funded and we are very disciplined about managing the best return based on the risk and making sure it is things that we can afford to do based on a checkbook, just like you would with your own money.

We are not traders or speculators. We don't borrow short and lend long. We are match-funded, so we focus on credit or asset risk, not interest rate risk. We are not a passive buyer of packaged assets. We underwrite directly to the securities and if you look at the first-half earnings in financial services, $5.2 billion in our financial services business. It is certainly a leader in the industry and we have got a great 20 plus year track record.

There are two other areas I want to cover. First, on the left side, I wanted to talk a little bit about global mortgages in the GE Money business. We have been in this business for more than seven years in a big way. We have been in it for a lot longer in some of the global platforms. We have $79 billion of non-U.S. mortgages in GE Money and if you look over time, this is a chart of our write-offs to our investment, average net investment.

Our write-off experience in this business is extremely low. We are senior secured. Even if you took the current loss level from 0.08 up to 15 basis points on the current book, we are talking about $120 million of losses. So we are very careful about how we underwrite this book. The portfolio is in great shape.

This is a lot different than the experience you are seeing in the US and I thought I would use the UK book as an example. We have $29 billion of assets in the UK earning over 25% return on equity. We have no originate to sell. Everything we do in the UK is originate to hold. We have our own in-house appraisal and servicing group. These are experienced GE employees who go out and validate the values of every property. We have insurance on properties that are over 80% loan to value and the process requires the insurance company to also underwrite every file before they provide coverage.

The average loan to value is 71% and I can tell you that after the first trouble we had at WMC late in '06, we sent Jim Colica, who is our risk manager with 37 years of experience and our Corporate Audit Staff, to every major mortgage platform around the world to ensure we had world-class practices on risk management, underwriting and collections. And our global mortgage portfolio is in very solid shape.

On the right side, I want to update where we stand on capital and funding. This is a chart that shows our adjusted debt-to-equity ratio. So if you take our book leverage right off the GECC financial statements and you adjust for two things. First, the insurance equity that we dividended out of GE Capital in the '04/'05 timeframe, we had a lot of excess insurance equity so it made it look like our leverage was lower. We dividended that out and you adjust for that and look at what the product leverage was on the assets on the books without insurance equity.

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And the second thing is you take into account the hybrid debt that we have issued, which is long-term debt that does get equity credit to some extent from the rating agencies. And if you adjust for those two things, you can see we have maintained consistent leverage for the past five years. We have 260 individual product leverages. So for every investment decision we make, we know what the leverage has to be to stay at a AAA capital level based on the probability of default and the loss given default estimates.

Our funding is in terrific shape. We have completed $60 billion of long-term funding this year out of a plan to do $80 billion to $85 billion. So we are over 70% done at the half. In a pretty choppy capital market, we decided to get out ahead of it. We have lowered our commercial paper to under $100 billion. The demand is incredible. We could do as much as we wanted. We have lowered it to make sure we have the right liquidity profile.

We have extended our average term out over 60 days and we are operating in several global countries; it is not all in the US. We have good liquidity plans in place and the rating agencies have just completed their annual reviews and you can read the reports on GE and GE Capital. They are on their websites for S&P or Moody's. We pay attention to every single metric -- retain cash flow to debt, leverage, capital, liquidity.

It is really not anything like being limited to an annual review. It is a real-time open book constant communication relationship. We are self-funded. As I said, we have a checkbook. We absolutely don't need any external capital infusion and we won't. If you look at the financial strength between the leverage and the capital and where we are, we feel great about the capital position.

So let me turn to the business results. We had a nice rebound in Commercial Finance in the quarter. Mike Neal and his team delivered a solid performance, above expectation. We had another strong performance globally on origination assets, were up 22%. Revenues were up 14%. Segment profit of $1.4 billion was up 7%, ahead of our guidance. Pretty much just like everything went against us in Q1. We had pretty much everything go for us in Q2. It was a good quarter across the board and -- let me start with Real Estate.

Real estate earnings were up 2% in the quarter. We sold $2.8 billion of assets in the quarter, even in a tough market. I think that is excellent execution. It was above our guidance. It is still a challenging market out there. The team did a good job.

In the quarter, we sold 126 properties for the $2.8 billion and in total, we shrunk our equity book by $2.6 billion in the quarter. So we are remixing this portfolio in Real Estate. We did have $7 billion of asset growth and that is all senior secured debt at about 70% loan-to-value with 25 to 30 ROE. So I think it is terrific that we can invest our capital into those type of returns at that level of risk.

The portfolio quality remains strong. Our non-earning assets are 0.18% of our outstanding receivables. 30-day delinquency in real estate is 0.17%, down 25 basis points over last year, so a good risk management and a nice quality in the portfolio.

Capital Solutions earnings were up 9%, driven by both acquisitions and core asset growth. Our on-book volume was down about 18% as we have raised price and new business margins are up 41 basis points in the quarter. The portfolio quality here is nice and stable, 20 plus delinquencies, 30 plus delinquencies or 1.35%, basically flat with the first quarter.

The balance of Commercial Finance earnings were up 11%. Corporate Finance was down 12%, but Equipment Services benefited from the $90 million gain I talked about on the sale of 9% of Penske and that also contributed to our above guidance performance.

So pretty good performance, good asset quality. We continue to take out costs in this business and we feel great about the second-quarter execution. We are still cautious about the future environment, but on any relative measure, the commercial finance business continues to outperform.

GE Money also delivered results ahead of expectations. On the next page, revenues of $6.6 million, up 6%. Segment profit of $1 billion was down 9% as Jeff mentioned and I mentioned. Assets were up 17% year-over-year. Really this is driven by foreign exchange. That's about eight points of the 17 points of growth in such a global portfolio. And the balance came from core growth in acquisitions, principally the BPH bank in Poland. So assets were up only 1% from Q1. We are seeing slowing new volume as we are also raising pricing here and tightening underwriting globally in the Money book.

Net income was down 9%. It is really driven by lower Americas profitability. If you remember in the quarter, second quarter of last year, we had a higher securitization income that was partially offsetting our WMC losses. The losses went into discontinued ops, but we had $108 million lower securitization income year-over-year and we also had higher provisions in the US of about $100 million. Global net income partially offset that. It was up 5% and that was principally driven by nice growth in central and eastern Europe, which was up 44%.

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On the right side, Jeff mentioned the portfolio actions we are taking. Feel great about both the exits that are in place and the exits that are completed and I will cover PLCC in a few pages. On the portfolio quality, a couple of comments, a little bit about delinquencies. The total 30-day delinquencies in this business is 5.92%. It is up 70 basis points. Really two drivers. One is North American delinquencies are at 5.55%. That is up 105 basis points. The second one is the UK secured delinquencies at 16.68%. That is up 317 basis points. So the rest of the world actually drives delinquencies down 20 basis points outside those two places.

In the US, we did see a decline in delinquencies in the second quarter from the first quarter of about 20 basis points reflecting some seasonality, but also we think we got some positive impact from the tax rebates. And as I mentioned, we added $100 million to provisions in the US in the quarter. In line with the guidance, we have to increase the provisions somewhere around $600 million to $800 million in the US for the whole year.

In the UK secured book, we did see the rising delinquencies. We increased provisions about $35 million and when we see rising delinquencies, it is pretty formulaic in this business, we provide for them in our provisions.

We continue to take costs out in GE Money. Bill Cary and his team have done a good job with global headquarter consolidation and branch closures and targeting $300 million of savings in the GE Money infrastructure costs for the year. So a tough US environment, global is performing well, but overall, a better-than-expected quarter.

One other page on financial services, just to look at the repositioning. This is really an update from EPG that Jeff covered. A couple of categories here. Opportunistic, high-return platform acquisitions, this is the time when we have an opportunity to put capital to work in places that we can consolidate platforms, we ought to do it. We are really executing here. Merrill is closed. That was about $11 billion of assets and it is performing very well. Citi will close at the end of July, about $13 billion of assets.

On debt origination in Real Estate and Corporate Finance, we are seeing solid investment opportunities here. If you have capital and you can do the underwriting, there are great opportunities available. We have got $24 billion of year-to-date volume at about a 30% ROE. We are raising our price across our flow businesses. So in leasing and in financing origination, we had about $14 billion year-to-date of volume. It spreads out 40 basis points.

We are continuing to always look at diversified funding sources and new partnerships and one example of that is Citi assets will be funded with certificates of deposits. We have already raised $4.5 billion in advance of the deal and we expect to reach as much as $18 billion this year in that funding source and less GE Money in developed markets and other redeployment.

I covered Lake. We are thrilled about that. Santander is in process, should close in the fourth quarter. PLCC is progressing. I would say it's slower than expected as has been widely reported. We have an excellent private label platform. There is no question about it in terms of the business quality and capabilities we have, but it is a tough time to go out and find someone with $30 billion of funding. But we are making progress.

The other deals that we have to redeploy are on track and I think we have got great execution here on the strategy and at the halfway through point of the year, I feel like we have really made terrific process on redeployment.

So let me take a look at the third-quarter outlook. If you look on the left side by business, we are going to continue to have very strong results in infrastructure, revenue up 20% and op profit up 20%. For Commercial Finance, we are forecasting down 10% to 15%. The main swing factor here that is going to continue to have an effect on us is Real Estate. We are expecting somewhere around $300 million to $350 million in net income in the quarter, which would be down about 50% from last year, but put us on track for the total year real estate guidance of somewhere between 1.5 and 1.7.

For GE Money, we are forecasting flat to down 5% in the third quarter. We do expect to continue to see higher provisions, mostly in the US. And we will have continued global growth partially offsetting that. For Healthcare, we are estimating 0% to 5%. We are going to continue to benefit from what we see and from easier USDI comparisons, but we do have some headwind from last year's third-quarter rev rec change in the third quarter.

For NBC Universal, we are calling for 0% to 5%. The real swing factors here are the Olympics and our film performance. We feel good about both, but we have to see how we execute in the quarter. And for Industrial Products, we are calling for down 20% to down 30%, basically in line with what we have seen through the first half.

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So on the right side, you can see the total company outlook of revenues is about $49 billion, a very strong top-line growth continues, earnings of $5 billion to $5.4 billion, down 2% to up 6% and then EPS of $0.50 to $0.54. This is the first time we have given guidance on the third quarter and here is our range and it takes into account that there is absolutely no change to the total year guidance of $2.20 to $2.30, up 0% to 5%. So that is the third-quarter outlook and let me turn it back to Jeff.

Jeff Immelt *- General Electric - Chairman & CEO*

Great, Keith, thanks. Just to wrap up, I wanted to, first, maybe give you a vision of the Company going forward, kind of post the Consumer and Industrial spin. We like the way the Company looks and we think it is well-constructed for the era that we are in and I really would divide it up into kind of three general areas.

The first is what I would call Infrastructure type businesses or businesses with a similar business model of global markets, service growth, technology based, high margin where GE leads and these are the Infrastructure businesses that we have got today plus Healthcare and Enterprise Solutions. So we think we have got a cluster of really great businesses that are well-positioned with a similar business model and well-focused on the future. We have got a great diversified media leader with multiple revenue streams, content leadership and great opportunities for global and digital growth when you look in the future.

And then a very high return set of financial service businesses with a very strong business model that Keith just went through. Global origination, diversified risk, deep domain expertise and AAA-rated cost structure.

So we believe that the Company is really in fine shape to face the types of economic conditions we see today and in the near future. From an industrial standpoint, industrial portfolio we think is very solid and I would say from here, we are only on offense and we have got the capability to invest in all of these businesses as we stand here today. And from a financial services standpoint, a very strong business model and high return and lots of great new origination opportunities. So this is a set of businesses that we think can outperform our peers and hit our own goals at the same time.

And lastly, just to wrap up on the quarter, again delivered a second quarter '08 in line with guidance, continued EPS of $0.54 a share, really great performance by the team in a tough environment. We are performing in the world we see today. The US remains tough, the capital markets still uncertain, but the global markets are robust and we just don't see any slowdown.

The business fundamentals of the Company remain strong -- AAA-rated balance sheet, strong global growth, great infrastructure backlog, tremendous new product development, strong cash flow and very visible service revenues that I think you have to take as one of the highlights in the quarter.

Third quarter '08, continue EPS outlook of $0.50 to $0.54, up 0% to 8%, again consistent with our guidance for the year of $2.20 to $2.30, up 0% to 5%. So our outlook in the future hasn't changed. We plan on a tough environment and we think we can execute in that construct.

Lastly, I want to say thanks to Dan Janki who is moving on to be CFO of our energy business. They have earned a lot of money in the last few quarters. They are going to keep doing that with Dan and welcome Trevor Schauenberg. I want to make sure you all get a chance to meet Trevor. He has been the CFO of our capital solutions business to lead investor relations.

I know we took a little bit more time this morning than usual, but we think it is important to kind of grind through the details of the quarter and give everybody a good context for what is going on in the marketplace. So Dan, let's turn it over to you and we will take some questions.

Dan Janki *- General Electric - VP, Investor Communications*

Great. Thanks, Jeff. Lauren, we would like to open it up for questions now.

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QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Jeff Sprague, Citigroup Investment Research.

Jeff Sprague *- Citigroup Investment Research - Analyst*

Thank you, good morning, everyone. Jeff, your last slide kind of hit this, but if we could drill a little bit more into your thoughts on the portfolio. I think in the C&I release, you basically kind of declared the industrial transformation over. And I wonder from this last slide, are you are also kind of indicating that, other than PLC and some things around the edges, the portfolio we see today is kind of the go-forward plan?

Jeff Immelt *- General Electric - Chairman & CEO*

Jeff, I think we will continue to execute on what has been announced, but I'd say industrially we like the way the Company looks right now and we now have the capability to invest very broadly across the industrial portfolio. And then what I would say, Jeff, in financial services is that when you look across the verticals, GE Money and Commercial Finance, it is really a capital allocation mode. I don't see big chunks that particularly in the current capital markets are going to be exited, but I think what we have the opportunity to do is to continue to redeploy from a lower return to higher return and the opportunities right now are very significant. So that is the way I look at financial services.

Jeff Sprague *- Citigroup Investment Research - Analyst*

And then maybe more for Keith, just a couple of things on GE Capital. First, just I guess the GECS tax rate, I guess I would have thought with capital actually performing better and I guess maybe US profits better that the tax rate would have wanted it to go up a little bit. Is there something else we need to think about there going forward?

Keith Sherin *- General Electric - Vice Chairman CFO*

Well, I think a couple of things probably that you should think about. First of all, back to 16%, it was totally in line with what we said in the quarter, the first quarter. We'll deliver in the second quarter what we said for the year. So the mix between industrial and GECS may look a little loady on GECS, but in total, that is exactly what we were thinking of and what was in the models.

In GE Capital, actually the main driver here is that we have lower US pretax earnings. Basically, the US GECS earnings year-over-year are down 270%, Jeff, mostly driven by that decline in securitization in GE Money. And the international pretax earnings are up 27% at much lower rates. So that is the biggest driver.

The other thing is we had about a $200 million additional provision in GE Capital in the second quarter last year that we put up that didn't repeat. So those are the two things that I would think about for the GECS rate.

Jeff Sprague *- Citigroup Investment Research - Analyst*

And Keith, can you give us any color on how things swung either up or down as it related to marks and the warehouse and all these items that were swinging against you in Q1?

Keith Sherin *- General Electric - Vice Chairman CFO*

Sure. If you look at Q2, Jeff, the impact of mark to markets across the categories that we talk to you about in Q1 was $23 million negative. So back into what I would call more normal volatility that you would expect in our Company, an example would be the senior secured loan mark at

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the end of the first quarter was at $0.89 and at the end of the second quarter, it was back to $0.92. We had a little more stabilization of trading. So overall, a lot less volatility and more in terms of the manageable amount that we would have expected to see.

Jeff Sprague *- Citigroup Investment Research - Analyst*

That is all in the equity portfolio and everything, the $23 million negative?

Keith Sherin *- General Electric - Vice Chairman CFO*

That is across the financial services businesses, yes.

Jeff Sprague *- Citigroup Investment Research - Analyst*

And then finally just one more from me on Real Estate. I guess to some degree, Keith, you hit this in your kind of lower guidance for Q3, but you sold a lot more real estate in the quarter for basically the same and the segment profit is basically the same as we saw in Q1. So I was just wondering if you could give us a sense of kind of the embedded gain that may be left in Real Estate and if you are acting as kind of the financer of some of the people who are buying real estate from you?

Keith Sherin *- General Electric - Vice Chairman CFO*

Basically when you look at the first half of real estate, Jeff, we have earned over $900 million in commercial real estate in the first half. Our estimate today for the total year real estate is somewhere between $1.5 billion and $1.7 billion. So we are thinking around $300 million to $350 million in net income in the third quarter and also the same kind of level in the fourth quarter. I think that won't require us to sell as many properties as you saw in the first and second quarter, which should be more executable by the team.

When you look at the challenge in the capital markets today to get that done, I think one of the big pressures is whether you get debt financing. Out of the $2.8 billion that we sold in the quarter, we did provide senior secured debt of about $500 million at about 70% loan-to-value. So it is a way for us to take our portfolio and invest it in senior secured debt on properties that we know really well.

Jeff Sprague *- Citigroup Investment Research - Analyst*

Great. Thank you very much.

Operator

Deane Dray, Goldman Sachs.

Deane Dray *- Goldman Sachs - Analyst*

Thank you, good morning. If we could just take a look at what might have been changing at the margin in some of the Commercial Finance businesses and the verticals, if I could pick out two and have you comment on them. One would be in GECAS. You see all the capacity cuts coming out and I know you have lived through multiple -- you said 200 bankruptcies. Just give us a sense of GECAS, how positioned today, what does the order book look like, ability to redeploy. And then the second business, changing at the margin with the corporate bankruptcies up, how are you positioned today in DIP financing? That was a meaningful contributor in the last downturn. How is that positioned today?

Keith Sherin *- General Electric - Vice Chairman CFO*

Sure. GECAS is really well-positioned I would say. We have got a very geographically diverse portfolio. A third of the book is in the US, 20% Europe, 20% in Asia. We are 14% in the Middle East and Russia. So very strong diversification. We have got 83% of the narrowbody book is in

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attractive 737 next gens and A320s. 90% of the widebodies is in high demand 777s or 330s or 767s. Our portfolio is the youngest we have ever had it in six years.

I think there is two places that we are watching from a risk perspective in the GECAS portfolio. It is the 737 classics and basically if you look at those, there have been some announcements that some US carriers are going to take out some capacity over the next three years. We think that is very manageable. We think a lot of those will get redeployed globally and we are in very good shape in terms of our asset values on those.

And the other is the regional jets, the 50-seaters and we are working very closely with the customers on those. We think most of them are on lease through 2012 and we feel like we are going to be able to maintain those on lease, but those are the two places I would say in the portfolio in GECAS that you want to watch.

We are 100% placed on our new order book through 2010, Deane. So when you take a look at what GECAS has ordered from Boeing and Airbus and what will be delivered, that is all placed and we are 100% placed in 2008 on rolloff, things that come off lease, 70% placed on 2009 rolloff and we have a tremendous global demand profile.

So we look at asset values obviously every quarter. We have a big process to go around on making sure that we know what we need to do with the values in the portfolio. We did take a charge in the quarter to actually write down our investment in Genesis, the IPO that was done last year. So we wrote it down to market value in the quarter. But other than that, I think we feel pretty good about GECAS. We are very careful and cautious about the market and looking at taking out some of the older aircraft. But we have done a great job of basically renewing the fleet and keeping it young.

On bankruptcies, our DIP business hasn't happened for the last couple of years. I mean we have had a couple this year, but we actually have a tremendous DIP business as you know and we are really well-positioned if that does happen and we will be well-positioned to take advantage of that. But that hasn't really affected our earnings yet, but I actually do look forward to that. I think it's something the business does as a competitive advantage. They are very well-positioned and if we do have a commercial turn here, I think we are going to have a tremendous DIP opportunity.

Deane Dray *- Goldman Sachs - Analyst*

Great. Just if I could -- one last quick question. When you mentioned about tapping new funding sources for GE Capital and forming some unique partnerships, any further color in terms of the size or what those relationships might be?

Jeff Immelt *- General Electric - Chairman & CEO*

Deane, nothing really specific, but what I would say is that we have got more than 10,000 originators, great risk management. We think offensively we are well-positioned to really continue to grow in financial services. And wherever it comes from, people seek us out as the partner of choice because we are so well-positioned. So again, I just think that is the way you have got to look at GE Capital. At a time with very low liquidity, we remain kind of the world's best originator and that is a core competency that we have got.

Keith Sherin *- General Electric - Vice Chairman CFO*

I would reinforce one point you made at EPG, Jeff, is we will not be looking at any partnerships that would be a capital infusion and if anything we do would be on a go-forward basis for taking advantage of the underwriting that we have and the funding that other partners may have.

Jeff Immelt *- General Electric - Chairman & CEO*

I think we have made that point twice on the call. I don't know how many more times we need to, but I hope twice is sufficient.

Deane Dray *- Goldman Sachs - Analyst*

It was sufficient for me. Thank you.

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Operator

Nicole Parent, Credit Suisse.

Nicole Parent *- Credit Suisse - Analyst*

Good morning. I guess my first question is on Aviation. You had two quarters of great top-line growth, up over 20% plus, and I guess what I would characterize as not so great conversion, kind of 10%, 11% profit growth in the first quarter, the mix worked against you because you had the -- service was much lower than engine equipment. When you think about Q2, it looks like services actually came up -- came through for you, up over 20% and you still didn't really have a substantial margin or profit tick-up. How should I think about that? I am struggling because you gave us a lot of color kind of on the engine and the mix and the service and I guess I am just trying to understand how we should think about that business for the rest of the year.

Keith Sherin *- General Electric - Vice Chairman CFO*

I think first in the quarter, Nicole, and then I'll talk about the rest of the year, I think you hit it. We had pressure on our operating profit in this business basically from the mix of equipment versus services and also the mix of engines in the quarter. We had more GP-7000s in the quarter than we have ever had and we had more CF680Es, which were kind of launch engines on a A330 transaction and those were very low margin.

Overall, we had four points of a margin rate drag from engine mix and engine versus services in the quarter. So I think the way to look at this business going forward is we are going to continue to have tremendous equipment deliveries. I think we expect to have a very strong service business, but we are taking into account that there are going to be some retirements in the US of engines that we do service. We have got a detailed plan that shows over the next three years what we think the carriers are going to take out, how many shop visits that could impact. We think it could be $100 million in the second half of this year related to services and maybe another $100 million next year based on a detailed look at those engines and shop visits and what gets redeployed and what was PMA and what wasn't.

So I think you have got to be cautious about aviation. I think we have a great position. I think we are going to ship equipment for a long time. The Airbus and Boeing are sold out through 2011, 2012 and that is going to continue for us. We are going to ship somewhere around 800 narrowbody airline engines a year for the next several years and we're going to ship somewhere around 300 widebody engines a year for the next several years and we will be growing our installed base, which is over 21,000 engines in GE and CFM about 6% plus a year over the next several years. 50% of the CFM engines that are out there haven't even come in for a shop visit. So I feel very good about it, but you have also got to be cautious about it based on some of the capacity that is coming out of the US.

Nicole Parent *- Credit Suisse - Analyst*

Great. And then just with respect to Healthcare, we had a nice performance and I think it was a good story in the quarter. Better revenue growth I would say relative to my forecast on that better revenue growth, a little bit weaker profit. Were there any concessions on the OEC shipments or did you have to change terms just based on the delay that you had and could you also update us on the hospital spending trends in the quarter?

Keith Sherin *- General Electric - Vice Chairman CFO*

I would say on OEC, that was lower margin than we have historically seen in OEC. We did do a lot to maintain our customer base over the period that we were out of the market and I think you will see those margins improve as you get into the third and especially the fourth quarter. We will be through most of whatever we did to make sure we maintained our customer base. So I think there was some impact of that.

In terms of hospital spending, I think you're seeing a leveling off from the DRA. I feel pretty good about that. We are very cautious on clinical systems. As we said last quarter, we see hospitals having more trouble with funding in the capital markets and so they are cautious about their capital spending, but I think things like the leveling off as I mentioned should start to give us better comparisons. We have got a lot of great new products coming out, which we feel great about both in MR and CT and also in the clinical systems. We have got a great new monitoring platform coming out in the second half of this year and we should be at a more levelized run rate post the DRA.

Jeff Immelt *- General Electric - Chairman & CEO*

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Nicole, I would just add to what Keith said. I think the fact that Medicare bill passed the Senate, I think that is a big step because -- with no imaging cuts -- because I think there is still some caution about that. And the other one is just to reiterate what Keith said. I think the second half of the year is the best probably new product introduction launch cycle that we have been in in a while and that has always been a big driver of this business and we think it will be here as well.

Nicole Parent *- Credit Suisse - Analyst*

Great. And I guess, Keith, any update on the hospital spending trends?

Keith Sherin *- General Electric - Vice Chairman CFO*

I don't have anything other than what I shared with you. We can get you some more on that through Dan.

Nicole Parent *- Credit Suisse - Analyst*

That's great. One last one for Jeff. Just with respect to your slide on the Company going forward, it looks like you are going to reconsolidate Capital. What is the right way to think about the org structure at the Company and is it reasonable to think that we are not going to make any changes based on the portfolio moves with C&I not happening or private label credit card taking a little bit longer until 2009?

Jeff Immelt *- General Electric - Chairman & CEO*

Nicole, again, this was more a look at where the Company is going forward strategically. As I said at EPG, we are going to look at ways to run the financial services businesses more in their entirety just because I think capital allocation in this cycle is so critical. Whatever we can do internally to facilitate that I think is a plus.

That the second part, I don't know, Dan, I'm not sure I completely -- Nicole, I want to make sure I answer your question. The second part of your question refers to what exactly? I'm sorry.

Nicole Parent *- Credit Suisse - Analyst*

As we think about the timing and any potential restatements we may have based on a reorganization and C&I isn't going to happen probably until '09, PLCs you have taken a little bit longer. We are probably not going to have any material changes to the numbers until we take another look at 2009 from an org chart perspective.

Jeff Immelt *- General Electric - Chairman & CEO*

If we do any type of reorganization, we will take those things into account and we will have to provide you with a schedule to recast whatever the numbers are, Nicole, when that happens.

Nicole Parent *- Credit Suisse - Analyst*

Okay. Thank you.

Operator

Robert Cornell, Lehman Brothers.

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Robert Cornell - ***Lehman Brothers - Analyst***

First of all, I would like to congratulate Dan on his new job and thank him for the help he has given me and everyone else on this call over the last couple of years. And before you get away, Dan, in the supplemental data, it shows -- the delinquency rates and write-offs at both GE Money and Commercial Finance were surprisingly modest. But while we have you, what do you think the outlook is going forward for the write-off, the provisions in both Commercial Finance and GE Money not just in the current quarter but going out. I mean when are we going to get these things peaking and when would the drag on GE peak in your view? You won't be around for the answer, so you can tell the truth.

Dan Janki - ***General Electric - VP, Investor Communications***

Yes, yes. Bob, as you and I have talked a lot and as Keith has articulated on prior calls, we have talked about Money being up $600 million, $800 million this year in provisions and we continue to see that. That trend will take place through the second half of the year and I think the wildcard there is where does unemployment go and that will -- we will evaluate that as we move through the second half. And as the commercial portfolio continues to perform very well, as Keith walked through with the non-earnings and the performance there. I think as you and I have talked about, there can be and we will evaluate it as we go through it. Things in the consumer facing US industry that you will have to watch related to housing, but the overall commercial book is very solid and the global book looks great.

Robert Cornell - ***Lehman Brothers - Analyst***

Wouldn't you think the peak would be -- you put the provisions for both -- Keith involved -- answer the question too, whoever wants to do it. When do you hit the peak in provisions for losses for the Company will occur when you look at Money and Commercial Finance out over the next six, eight quarters, whenever?

Keith Sherin - ***General Electric - Vice Chairman CFO***

Bob, I don't know if any of us can predict a peak. I'd tell you that in the quarter, we increased provisions by $400 million. We increased provisions in Money by $200 million. We increased provisions in commercial finance by $200 million. I think Dan outlined the plan for 2008 for GE Money, which I think does take into account rising delinquencies and as delinquencies rise, we will have formula increases in our provisions.

I would like to be able to predict when the consumer is going to be able to turn when employment -- what is going to happen in employment and housing. I don't see it that clearly out past the end of this year and right now, in our guidance, we are contemplating internally in our planning that we will have higher provisions in the Money business and we will have higher provisions in the commercial finance business, but probably delayed.

Our book is great, the delinquencies in commercial finance are up about 20 basis points. About half of that is related to including the Sanyo acquisition in Japan and the numbers just based on mix. So up 10 basis points on a comparable basis, we continue to see good strength in the balance sheets and the cash flows of the Companies and investments we have made. So our risk team is cautious though. I'd say when they look forward, they say if you do continue to see pressure on the consumer and you end up having a little bit of a commercial turn, they are anticipating that, at the end of this year, you start to see a little higher delinquencies and you end up putting up additional provisions.

I don't know when it peaks, but I would say based on the portfolio today, our diversification, our spread of risk, our size of our asset base, we will have lower overall non-earnings and delinquencies of a percent of average net investment than we had in the early '90s, which would have been the peak I would say.

Robert Cornell - ***Lehman Brothers - Analyst***

Yes, one final question for me. I mean with this quarter coming in largely or must exactly on target except for maybe the industrial business with other things a positive surprise, I am a little surprised the third-quarter guidance is a little wider than you would have thought. The guidance for the business looks pretty normal within the context of GE's ranges and the third-quarter earnings per share guidance looks a little wider. Any thought about that?

Keith Sherin - ***General Electric - Vice Chairman CFO***

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Well, it is the first time we have given guidance on the third quarter. I think if you look at where we are at the half, you look at the individual businesses that I have outlined in terms of the ranges and you take the bottom end of those ranges, which I think are pretty prudent in today's environment given the visibility and you take the top end of the range, you end up with $0.50 to $0.54 in the third quarter. I think it is a prudent place to be based on the visibility we have and we feel -- let me tell you, we feel great about the way the team executed in the second quarter. I think they did a great job and we would like to do that again in the third quarter.

Robert Cornell *- Lehman Brothers - Analyst*

I guess the final question for Jeff, I mean we talked about -- you talked about the sale of Appliances a couple of months ago and now anticipating a possible spin of C&I. I mean it sounds to me like the spin of C&I is -- the primary expectation, maybe you could just articulate your view of it. Are you still looking at parallel paths for these pieces or C&I spin is the way to go?

Jeff Immelt *- General Electric - Chairman & CEO*

Yes, Bob, I think the way I would think about it is the C&I spin is the primary solution, but that doesn't mitigate the fact that there might be other ways to go and people are still probably going to put in great offers on appliances or the pieces and so I think it just gives us a multitude of different options as we go forward. But I think if you think about it, I think it gives investors certainty and we will, at the same time, make sure that we maximize value.

Robert Cornell *- Lehman Brothers - Analyst*

Okay, thanks.

Operator

John Inch, Merrill Lynch.

John Inch *- Merrill Lynch - Analyst*

Thank you, good morning. So I think, Keith, you said that, in terms of the Money provisions, the $100 million was incrementally in the US. How much of that is going to the PLCC business?

Keith Sherin *- General Electric - Vice Chairman CFO*

It is split between the retail sales finance and PLCC. I don't have the specific breakdown between the two. It is all in those two portfolios.

John Inch *- Merrill Lynch - Analyst*

Okay, but it is not as if that is disproportionately driving this. I am just trying to think of incremental potential headwinds. If you get rid of PLCC, does that mean you have to go back to the rest of the Money portfolio and somehow supplement that with extra provisions in the future?

Keith Sherin *- General Electric - Vice Chairman CFO*

No, I am pretty sure it is pretty consistent across the assets in retail sales financing and PLCC.

John Inch *- Merrill Lynch - Analyst*

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Okay. And then, Keith, just to be clear, did you say that the sort of your view of the all-in impact of US airline capacity reductions in terms of the aircraft engines business is about a $100 million drag or a $0.01 of drag in the second half and about a $0.01 of drag next year, it is only that?

Keith Sherin *- General Electric - Vice Chairman CFO*

I was dealing with pretax, so it was about $100 million of segment profit in engines in the second half and about $100 million probably next year and that is kind of what we based our planning on so far. I mean it is really a little early for 2009 obviously, but that is the look of the team based on a 2008 through 2010 potential and working with our airline customers' capacity reductions in the fleet.

John Inch *- Merrill Lynch - Analyst*

But that is not GECAS? That is purely aircraft engines.

Keith Sherin *- General Electric - Vice Chairman CFO*

That's right.

John Inch *- Merrill Lynch - Analyst*

Okay. Why is it only that? I mean why, just for reference again, why isn't the magnitude greater considering sort of what has been happening with global flying hours? And just I think sort of generically some pressures in the global economy, why couldn't that be a lot more than that?

Keith Sherin *- General Electric - Vice Chairman CFO*

I think the main thing you have got to think about is what is coming out of the fleet. It is going to be the least fuel-efficient aircraft and if you look at -- if you look at the two older categories of planes -- you have got MD-80s and you've got 737 classics. The MD-80 is about 20 points less fuel-efficient than a 737 classic. So I think the first thing that is going to come out is going to be the least efficient fuel engine and that is not going to be ours.

And the second thing is that when you look at the 737s that we do forecast to come out of US capacity, we think about a third of those are going to get redeployed globally and then another piece of the 737 classics that come out are going to come out of United probably and we are not doing the servicing there and it has got some PMA content in it.

So we have got more work to do obviously. I think we are cautious about it. I would say that we feel pretty good about the analysis for 2008 and obviously we have got to keep looking at it as we get through the rest of this year, John.

Jeff Immelt *- General Electric - Chairman & CEO*

John, one of the other things I would say is that the equipment orders and major equipment has stayed stronger longer than we would have even forecast and we believe one of the reasons for that is that high energy costs make the investment in more energy-efficient products that much more appealing, whether that is locomotives or anything else. So I think that is in general going to help us across the segment from energy to the rest of the pieces.

John Inch *- Merrill Lynch - Analyst*

Jeff, just one more question for you. One of the bright spots in the quarter was obviously your strength in global markets. I think you commented that you still see no signs of any kind of slowing or that global markets remain robust. On the other hand, there is a lot of consternation around inflationary pressures of the risk to the global economy given sort of spillover from the US. Could you talk a little bit about why you think that -- what is really your outlook there against the economic backdrop and why do you think GE can basically retain sort of the current performance or just how we should think about these businesses?

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Jeff Immelt - ***General Electric - Chairman & CEO***

John, we look for it constantly, vis-à-vis, what are the global order rates and things like that. I would make a couple of comments. First, I think we very much repositioned the Company to be able to drive great results in places like the Middle East, Brazil, places like that.

Number two, the products we sell basically generate good energy efficiency and in a time of high energy costs or high material costs, the desire to invest in these assets remains very strong.

And the third one would be is, look, when I go to someplace like China or India, I go to the cities other than Beijing and Shanghai and these places are still investing massive amounts of money. There cranes everywhere and you just don't see the kind of slowdown driven by the US consumer. And so I think the velocity doesn't seem to be slowing down, either in the order rates or the revenue line.

Keith Sherin - ***General Electric - Vice Chairman CFO***

I think another good point, Jeff, is just the diversification. If mean if you look at how globally local we are, in the quarter, even in China, it was a little over $1 billion of revenue. It is less than 5% of our revenue in international revenue. If you look at India, it is half of that. So those markets are really growing, but it is the spread. It is in Southeast Asia, it is in the Middle East and Africa, it is in Eastern Europe and Russia. It is in Latin America that we are very well-positioned and we are getting a good, broad spread of risk in terms of our global revenue growth.

Operator

Scott Davis, Morgan Stanley.

Scott Davis - ***Morgan Stanley - Analyst***

Thanks, good morning, everyone. Before I criticize you guys on being the Cubs, I will note that the Cubs were in first place last time I looked, so probably used the wrong team to compare you to last time around. I want to follow up a little bit on John's question. One thing that we haven't talked about is that your order book is very strong, but is there a risk in particularly I think with aircraft engines that further delays and order cancellations really starts to erode that order book? And as I sit here, I am looking back at the model and seeing how kind of hard you got hit in 2002 in engines and just wondering what drives a higher level of confidence now versus 2002 and you certainly have some dynamics that are similar as far as airline health.

Keith Sherin - ***General Electric - Vice Chairman CFO***

I will start with a couple of factors. The first one would be just this question about equivalent deliveries. Go back to Boeing and Airbus, look at how full their order books are, look at who those planes are going to and I would say that I think that the global supply/demand is very solid for the next two or three or four years. You saw an airline go bankrupt. There were 60 planes that came out. It didn't affect Boeing or Airbus' schedule. I think they have oversold most likely.

I think the global demand is something you don't see. You live here in the US and you hear about the US carriers cutting capacity. They are going to have to re-fleet eventually with much more fuel-efficient aircraft and we don't make a lot of money as you ship that new equipment anyway. So I think the record order books that we have, I feel while some may get canceled, pushed, deferred, delayed, you are really talking about something probably in 2013 or 2014. So I think from a general equipment delivery perspective, you have got to watch it, you certainly want to make sure you don't have a cliff-type problem. I don't anticipate any of that with the carriers, Boeing and Airbus specifically.

The thing that will affect us is the takeout of capacity. I think as US carriers take out capacity, we have to look at what planes are going to come out, what did we expect from a service perspective and how will that impact us on shop visits and spare parts sales. I think we have done a pretty good job of modeling that. I think it is early probably, but we are dealing with our customers every day. We have a model that shows the number of planes coming out by carrier through 2010 based on announced and planned capacity reductions, no what engines we service, we know what engines we think will get redeployed. We know what engines will be broken up for spare parts and we have got a pretty good forecast about that.

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It could be worse, you are right. We have got to be cautious about it, but I think we are thinking about it right, we are talking to our customers. We are planning on it. The other thing I would say is we have got 21,000 engines in the installed base. Those planes are flying globally and when they are flying, eventually they are going to come in for a shop visit and we are going to sell spare parts and that installed base is growing about 6% a year based on new fuel-efficient aircraft being delivered and that is a heck of a buffer here and I think the buffer is a lot bigger than it was in 2001 and that gives us some real confidence too, Scott.

Operator

Nigel Coe, Deutsche Bank.

Nigel Coe *- Deutsche Bank - Analyst*

Thanks, good morning. So you announced yesterday the spin of the -- the probable spin of C&I. Can you just put some parameters around timing, what could delay that process and any reason to seem it couldn't be maybe a late 3Q, early 4Q process? And could this be a viable option as well for PLCC?

Keith Sherin *- General Electric - Vice Chairman CFO*

We are going through the work on C&I. It is interesting, we do have to get three years of audited financials. We have to prepare an information statement to file with the SEC. You are probably going to want to look at audited '08 financials. Our plan is that that process, the detailed planning, the registration, information statement, the three years of audited financials here, you are going to be early in '09, you're going to be in the first half of '09 here for that and I know we have pushed the team on going faster. I think it is going to make sense to get audited '08 financials and be looking at the '09 outlook when you look at that asset. So that is our probable timing.

So something could change, but even a buyer is going to want three years of audited financials and that is going to take some work. We are looking at alternatives on PLCC. Interesting, yes, that there are some things that we are looking at that may involve a public capability. I don't know -- I don't know exactly the form that could take, but we are certainly looking at different structured alternatives around PLCC.

Operator

Steve Tusa, JPMorgan.

Steve Tusa *- JPMorgan - Analyst*

Hi, good morning. Just a question for you on the guidance. All the moving parts here like the PLCC business, as well as -- I think you put more into discontinued ops. Are all the moving parts the same as when you last provided guidance up to the first quarter?

Keith Sherin *- General Electric - Vice Chairman CFO*

Sure they are. We haven't put anything else in disc ops. All we did was take the provision to exit the additional assets in the Lake business. So no, there is no change to something out off or in disc ops. Everything that was in continuing in the first quarter is still there and we haven't changed any of that.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn *- Oppenheimer & Co. - Analyst*

Good morning.

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Dan Janki - ***General Electric - VP, Investor Communications***

Chris, are you there? Well, Chris was our last question, so he must have fallen off the line. So with that --.

Jeff Immelt - ***General Electric - Chairman & CEO***

Hey, look, I would just like to thank everybody. I think we had a very strong quarter in a tough environment. No change to the total year guidance. I think we are going to be playing offense as a company and again, we feel very solidly about our position and look forward to continuing to execute in this environment. So thanks to Dan and welcome to Trevor.

Dan Janki - ***General Electric - VP, Investor Communications***

Thank you, Jeff and JoAnna and I will be around all day with Trevor to take your questions and a replay of today's presentation will be out on the website along with the transcript. So thank you very much.

Operator

This concludes your conference call. Thank you for your participation today. You may now disconnect. Good day.

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