Conference Call Transcript

GE - General Electric 3Q 2007 Earnings Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the General Electric third quarter 2007 earnings conference call. At this time all participants are in a listen-only mode. My name is Bill and I will be your conference coordinator for today. (OPERATOR INSTRUCTIONS) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the program over to your host for today's conference, Mr. Dan Janki, Vice President of Investor Communications. Please proceed, sir.

Dan Janki - ***General Electric - VP of IR***

Thank you, Bill. I would like to welcome everybody to today's earnings conference call. Our presentation went out -- our earnings release went out at 6:30 this morning; that along with the presentation and supplemental information available at our investor website, www.GE.com/investor.

This presentation does contain forward-looking statements based on the world and economic environment as we see it today that is subject to change. Today we'll give you an update on third-quarter operating results, fourth-quarter outlook, and then we'll take your questions as usual at the end.

To cover that material, we have Jeff Immelt, our Chairman and CEO; and Keith Sherin, our Vice Chairman and CFO. So I would like to turn it over to Jeff now.

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

Great, Dan. Good morning everyone. On the first page, just wanted to cover some of the highlights. The environment we believe remains good for GE. Global markets are solid and the financial market risk is repricing. This shows up in phenomenal growth numbers. Our revenues were up 12%, orders up 20%, assets up 23%, and organic growth at 8%.

We delivered solid operating performance despite a few specific one-time headwinds. We did have a $100 million negative mark on our financial service business. We had in the Infrastructure business some pull forward on program spending and some service timing challenges which will largely improve in Q4. Our Q4 Infrastructure outlook looks very solid. We had $100 million more restructuring than originally planned and this was slightly offset with a lower tax rate but year to date, our tax rate is at 18% and we are on track for the year.

Our buyback program continues. We are on track for $14 billion in 2007 with about $6 billion in Q4. We had a gain from the sale of the Plastics business and we used that to restructure both in our Industrial businesses to improve cost and also to removed headwinds in WMC in Japan. And our fourth-quarter guidance and total year guidance is very robust with fourth-quarter guidance at $0.67 to $0.69 up 18% to 21%.

Just to kind of look at the world we see and give you some of the economic flavor on a global economy that we see as generally favorable; and I will just tick through some of the various segments in the businesses we see. First the global markets remain very strong. I was in Asia a couple of weeks ago, visited four or five countries and we just see -- continue to see solid growth everywhere.

The infrastructure markets remain very strong. We see orders everywhere around the world and that seems to be accelerating and not diminishing. Our asset growth is at very high margins so the new assets that we are adding on book are largely being repriced. And the advertising markets which are a pretty good barometer of the US economy, are still robust and scatter pricing is high.

Some of the things that are the same as they were over the last few months, the commercial finance and global delinquencies remain stable. Capital markets are volatile but we believe they are improving and the broad US economy ex-housing remains okay and we see solid single-digit order rate growth in these areas.

What remains still tough is housing and subprime mortgages are still tough and we see US consumer delinquencies trending up slightly. And the US healthcare market where the Deficit Reduction Act remains challenging. And GE we believe is very well positioned in this environment with our global strength, our Infrastructure technology, our diverse business mix, tremendous AAA rated balance sheet and risk management and we believe that the restructuring has allowed us really to improve our portfolio and reduce risk.

Just some of the key metrics for the quarter. Growth, as I said earlier, remains extremely strong; orders up 20, revenues up 12, assets up 23, organic growth up 8. EPS on plan, continuing EPS up 9% and net earnings up 15%. Returns on target at 18.5% and we remain on target for 20% by 2008.

Margins had headwind that we were unable to offset the mix in Healthcare and the equipment service mix but still on 70 basis points up year to date and still making progress and driving the margin rates very hard. And cash very strong with Industrial CFOA up 16% and using that to fuel the buyback. So on balance a solid performance for the quarter and we feel like we are well-positioned for the year.

Finally just on executing the long-term strategy, the things we have talked about over time investing in leadership businesses. We really think we are seeing broad strength, Infrastructure, Commercial Finance, NBCU growth is accelerating. Selling Plastics when we did and receiving the price we did I think makes us feel great about our ability to redeploy that capital back into good acquisitions like Sondex and Oxygen and we believe that exiting the Japan personal loan business and WMC takes risk off the table looking at the future.

From an execution standpoint, cash, returns and buyback remain on track extremely strong. And as I said, 70 basis points year to date on margin rates, we continue to focus on that as a key initiative. Growth as a process I think is pretty undeniable. This is an extensive string of organic growth of at least 8%. Services revenues are good. Global growth remains very strong. The imagination breakthroughs, particularly eco-products are very solid delivering $5 billion of revenue growth for the quarter and the team remains very solid and committed to delivering for investors.

So with that, let me to turn it back over to Keith and let him give you some of the details of the operations.

Keith Sherin *- General Electric - CFO*

Thanks, Jeff. I'm going to start with orders. We had another great orders quarter. On the left side you can see the major equipment orders in the quarter were $12 billion. The orders were up 39%. If you look, Aviation is up 93%. GEnx and GE90 had great order strength around the world. Energy more than doubled in the quarter, over $4 billion of orders driven by tremendous performance in Thermal and Wind.

Oil and Gas up 56%, tremendously strong around the world. Transportation down in the quarter, as we have said all along, there are some major equipment orders are lumpy but they had a one-time large order with Kazakhstan last year. They are up 27% year to date so the business is in great shape. And overall Infrastructure orders up 62% on major equipment. You can see it is up 38% organically. The backlog continues to grow up 56% and up $15 billion since the end of the year. So the major equipment orders are tremendous for us globally.

In the middle, our service orders of $8.2 billion up 4%. That is driven by Aviation and Oil and Gas. The Commercial Aviation business had tremendous spares performance, about $19 million a day up 20%. The Energy business you can see is down and services orders pretty much driven by Nuclear. We had a tough comparison. We had a nonrepeat of a large Entergy service order last year and also we have been impacted by the timing of fuel reloads specifically in TEPCO Japan due to the earthquake.

And then on the right side, the flow orders of $4 billion were up 5%. We had great strength in Lighting and Industrial and Appliances was down slightly with the growth in retail offset by the contract channel. So overall a continuous strong performance, $24 billion of orders in total, up 20% and year to date, $71 billion of orders, up 18%.

Next is a review of margins and delinquencies and financial services. On the left side is margin. We show you this chart each quarter. The blue bars are the net revenue or the contributive value as a percent of average assets. The green bars are the net revenue less the losses as a percent of average assets.

If you look on the left side, the risk-adjusted margins are basically flat year-over-year and the earnings growth drivers we are getting are just tremendous asset growth. Our origination teams continue to really perform. I will show you that in the details later and then the productivity and simplification of restructuring helping us to grow our earnings.

On the right side you can see the 30 plus day delinquencies. Equipment Financing delinquencies are basically flat, continue to be at historic low levels. And GE Money delinquencies are down slightly overall. They are up some in the US and I will cover that in more detail on the GE Money page. So the portfolio quality continues at very strong levels.

Next is Industrial margins. Top half of the page is the third quarter and third quarter year-to-date margins. We're down slightly in Q3 but up 70 basis points year to date. Healthcare and Infrastructure were a drag in the quarter. Healthcare is about 2/10 of a point drag just having a high-margin business flat as a mix issue for us in total. And then Infrastructure both mix as we continue to sell high quantities of equipment at greater rates than the services growth. And then the acquisitions are performing really well but they are coming in at lower margin rates than the rest of the business so that is a drag.

If you look at the right side, the drivers for year-to-date growth are listed. You can see the real key here is we are getting great growth in Infrastructure. However the equipment services mix is about a 4/10 drag year to date. It is a great new story. I mean we are delivering growth and equipment at 30-plus% and the services growth at 10% so we're building that installed base and that is going to be great for services as we go forward. But it is just a slight drag on the margin rate.

On the bottom, we are looking at the total year and the fourth quarter. The fourth quarter we are going to get 50 basis points of growth and if we look at the drivers on the right side for the total year, you can see that productivity is strong, price is outpacing inflation.

We've got a benefit in NBC from the Olympics. That equipment services mix will be with us all year. The Infrastructure acquisitions are with us all year and then the Healthcare drag. So with the 50 basis points in the fourth quarter it will deliver the total year at 70 basis points and we are committed to delivering that.

Next is a recap of gains and capital allocation. Back in December, our original guidance was that we were going to have about $1 billion to $1.5 billion of after-tax gains which would fund restructuring. With the great results from the Plastics sale we have done much better and those gains have allowed us to fund $2.7 billion of actions. We have improved our business position with a lot of good restructuring to lower our cost footprint and we have also reduced the risk in GE Money with the actions in WMC and GE Money Japan.

Disposition activity also has given us a lot more flexibility on capital allocation. Dispositions came in at the high end of the range that we set at the beginning of the year as we successfully exited Plastics and Swiss Re and completed the Nuclear JV with Hitachi and we have significantly improved our Aviation and Oil and Gas franchises with the acquisitions of Smiths and Vetco and we have announced acquisitions that are also going to enhance our Energy controls and entertainment cable businesses. So reinvesting in the portfolio.

And in addition, with Abbott acquisition off the table, we increased our buyback to $14 billion this year and we are going to complete our $27 billion program one year early. So the gains have funded restructuring and business exits and 2007 has been a terrific year for us for strengthening the portfolio for the future.

Next is an update on restructuring and other charges and this is just a continuation of the reporting that we initiated in the first quarter. During Q3 we completed the plastic sale as everyone knows. We realized a $1.8 billion after-tax benefit and that benefit is reported in discontinued operations.

On the left side, you can see the amounts of the restructuring and other charges in the quarter. In the third quarter, both GE Money Japan, the personal loan business which was known as Lake, and also WMC went into discontinued operations. So if you look at the charge for Lake, the GE Money Japan line here is currently our best estimate of the loss on the sale of the business. We have engaged advisers. We are proceeding with the exit process.

And for WMC, we reduced our assets at the end of the second quarter we had $1.1 billion of assets. We have taken that down to about $375 million at the end of Q3 and the sale of that business is also proceeding.

In continuing ops, you can see we had $568 million of restructuring. There were events across the businesses that I will describe on the right side in addition to an environmental related charge in corporate. And on the right side, you can see the amounts by category that we continue to show you the business exits being the largest one.

But we also had a significant amount of restructuring in C&I. We are going to have a global reduction of 13 Lighting facilities. We are transitioning to low-cost regions. We are closing six Industrial and Appliance plants. We have had cost structure actions in Healthcare and NBC Universal and Energy and we also continue to simplify our financial services businesses. We had site consolidations in the US and the UK and site consolidations in Mexico and Australia and New Zealand.

So the continuing ops restructuring is giving us about a three-year payback and a total year reduction of about 9,000 headcount and the gains have enabled us to lower our cost structure which is going to help us going forward and also improve the risk profile of the Company.

Before I get into the third quarter numbers, I also want to give you an update on our accounting. As we mentioned in our press release this morning, we filed an 8-K to update prior period financials for some immaterial items that our audit and controller ship teams identified during the third quarter.

Let me start with the status on the left side. We are in the third year of our ongoing investigation by the SEC. We have dedicated significant resources to this effort. Our own corporate audit staff, our outside auditors, KPMG; we have additional outside technical teams from both Ernst & Young and Charles River Associates and outside counsel. We are reviewing our revenue recognition policies and procedures across the Company and we are committed to timely and transparent action and disclosure.

And on the right side, you can see there is a brief summary of the two items that we described in the 8-K this morning. The first item involves revenue recognition at shipping. We determined that we retained transit risk because of insurance practices and because we retained transit risk, we had to revise that revenue for some of our businesses to a destination basis instead of a shipment basis.

The second item involves Aviation contractual services agreements. We had an issue involving the credits that we get for parts that we obtain when we overhaul an engine and take parts off the old engine being overhauled. You can see that the financial impact of these corrections is immaterial. The annual revenue impact of these items is never more than 3/10 of a percent in any year and the net income impact is never more than 6/10 of a percent in any year. The impact of these adjustments is not significant in 2007.

We have put all the details on our website and in the 8-K. So these are the items that we found to date. The management team, the audit committee, the Board -- we're committed to transparent disclosure. We have given you all the details in the 8-K by quarter, by segment, and annually for what the impact of both these items are and as we go forward and file our 10-Q and file the 10-K next year, we will update the amounts in those filings.

Next is a high-level recap of the third-quarter EPS dynamics. These are the actual numbers from the framework that we gave at the September Infrastructure meeting. On the right side you can see our continuing operations, the results before restructuring were at $0.56. And in the quarter, we had $0.06 of restructuring that I described on the other page and that was higher than our previous guidance by $0.01 and that resulted in $0.50 of continuing EPS, up 9%.

In discontinued operations, the net of the Plastics gain and the Lake and WMC charges were at $0.04 on an EPS basis and the final reported EPS, up 15%. So continuing operations restructuring was higher than we previously communicated and we were pleased to be able to complete that $0.06 in the quarter.

Let me cover the third-quarter consolidated results. On the left side is a summary of continuing ops; the revenue is at $42.5 billion, up 12%, a very strong top line quarter. Earnings at $5.1 billion, up 7% and EPS continuing at $0.50, up 9%, a little benefit from the buyback there. We also added the reported EPS which includes the impact of the discontinued ops activity that I just covered.

Cash flow year to date of $16.3 billion in line with our expectations and Industrial cash very strong. I will cover more details in cash in a minute. And then on taxes, you can see the third-quarter year-to-date rates were in line with our previous guidance of 17% consolidated total year estimate.

For the third quarter, the industrial rates at 25% and our consolidated rate is lower than the year-to-date rate driven by the movement of both WMC and GE Money Japan into discontinued operations. And you can see that reflected in the capital rate in the quarter of zero. That movement resulted in a third-quarter reversal of first-half tax provisions lowering the third-quarter GECS rate in order to get the third-quarter year-to-date rate in line with our current projection for the total year.

So the lower taxes in the quarter are the result of WMC and GE Money Japan going into discontinued operations as well as the effect of the higher tax restructuring and other charges during the quarter and our total year consolidated rate estimate remains at 17%.

On the right side you can see the business results. Infrastructure, Commercial Finance, GE Money all delivered double-digit earnings growth. Healthcare, NBC Universal and Industrial together were on expectations and overall if you look at the operating results for the quarter, we had very good results from our businesses even with the impact of about $100 million each from higher restructuring and continuing ops in corporate; higher programs impact and Infrastructure; and marks in financial services partially offset by the lower taxes.

So we feel we had a nice strong quarter. I will cover the details by business in a minute.

Next is cash. Q3 cash continued in line with our expectations. On the left side, we delivered $16.3 billion of CFOA which is down from last year as we planned. The driver of that you can see on the bottom left during the first half of 2006, we had $3 billion more of special dividends from insurance proceeds than we received this year. If you look at the Industrial CFOA of $10.5 billion, that is up 16% year-to-date. That is slightly ahead of our plan driven by strong timing of progress collections in our Infrastructure business.

And on the right side is the cash balance walk, beginning balance of $4.5 billion. You add the cash flow from the left side of 16.3 less than dividends paid of 8.7. We have repurchased $8.1 billion of stock year to date. We bought $6.3 billion of that in the third quarter and we are on track for the $14 billion for the total year. Our plant and equipment was $2 billion. We completed the Plastics disposition which was partially offset by the Smiths and Vetco acquisitions and we ended the quarter with $7.2 billion of cash.

So our cash performance is as expected, on track for $22 billion of CFOA for the total year and if you look at the total return to shareholders, our dividends and buyback this year will total $26 billion return to shareholders.

Now the framework for the fourth quarter on the left side is the outlook by business. You can see fourth quarter looks really strong for Infrastructure, should be up 20 plus. We expect double-digit growth in Industrial, Commercial Finance and NBC Universal. GE Money up 5 to 10 and Healthcare about flat. And on the right side, you can see it is another strong top line quarter solid double-digit earnings growth and earnings per share growth.

If you look at the fourth-quarter guidance of $0.67 to $0.69, up 18% to 21% and then the total year, as Jeff said, on track for the $2.19 to $2.22, up 18% to 19%. So outlook for the fourth quarter is very strong.

Now let me get into the businesses. I'm going to start with Infrastructure. John Rice and the team delivered 19% revenue growth and 12% segment profit growth. You can see the business results down the left side and I am going to cover Aviation and Energy on the next page in more detail.

For the segment in total, the orders continue to be tremendous, up 32% in total; equipment is up 60%. We added $14 billion to the backlog. Top-line growth is also tremendous, the revenue in the quarter driven by Aviation, Oil and Gas and Transportation. We continue to have great growth in equipment at greater rates than the services which is a terrific story for growing the installed base but it does dampen margins as I reported.

And for the verticals, Aviation Financial Services, is down 2 in the quarter but if you look at the total year, third-quarter year-to-date they are up 17%. They are having a great year. And Energy Financial Services had a very strong quarter, up 14%.

So for fourth quarter, I am going to show you Aviation and Energy but we expect an acceleration of profit growth and the outlook is for the segment profit to be up 20 plus. And let me dive right in on the next page to Aviation.

Aviation revenues up 35 and segment profit up 7. Orders are extremely strong. The total orders of $5.5 billion were up 50%. Major equipment orders were up 93%. Commercial engines, $1.7 billion of orders, up 24% driven by both the GE90 and the GEnx. Military engine orders were up 90% driven by F-15 Saudi reengine contract and a US Navy contract and the service orders of $2.3 billion were up 15%.

The backlog in Aviation is $18 billion is up 89% year-over-year and Smiths in the quarter had revenue. They are delivering about $600 million and about 10% op profit. If you look at our revenue growth, $4.2 billion, up 35%; commercial engine revenues were up 19. We shipped 40 more commercial engines than the prior year. Commercial services were up 16, spares at 19 a day as I said versus 16 last year.

Military was up 2%. The op profit up 7; that was driven by Smiths up 9 offset by the core ops, down 2 and we had two specific items in the quarter. The program impact principally for GEnx and LEAP 56 was up $90 million year over year and we had no repeatable one-time service benefit in the third quarter '06 which was about $50 million. If you adjust for these two items, the op profit would have been up about 20% and the outlook for the fourth quarter is for a 20% segment profit growth. So a good outlook in Aviation.

On the right side is Energy, revenue up 3 and op profit up 8. Total orders in Energy are also booming. Total orders of $6.5 billion were up 39% in the quarter. The major equipment orders were up 103%. Thermal was incredibly strong, $2 billion, up 209%. We received orders for 35 Gas Turbines in the quarter versus 22 last year. The Thermal backlog is now at $5.8 billion. It is up 110% from a year ago.

The Wind orders of $1.5 billion were up 90%. The Wind backlog of $7 billion is up 112% from a year ago and Nuclear is up over 100% including our second $100 million order for long lead items for a new plant and this one from Entergy. So overall, PowerGen incredibly strong and the PowerGen orders price was up about 7% year-to-date.

Revenues $5.2 billion, up 3%. You can see the PowerGen revenue was up 13%. We shipped 45 Gas turbines in the quarter just up a little bit from 43 last year. We shipped 662 wind units, up from 613 last year so up a little bit. And the service revenues were the drag in the quarter down 9% on tough comparisons.

In services, we exited some low return businesses like rentals, parts of our transmission and distribution business, and we also had some unfavorable timing in comparison to Nuclear in our contractual service business. Both those dispositions and timing impacted revenue and op profit and even with the services drag, the margins are up 80 basis points. The outlook for the fourth quarter is very strong, up about 30%. So if you look at Aviation and Energy and going into the fourth quarter, all the fundamentals around orders and growth are tremendously strong and the outlook for the fourth quarter is strong in both businesses.

Next is GE Money. On the left side, Dave Nissen and the team delivered 13% earnings growth. The revenues of $6.2 billion were up 23% driving the segment profit of 942, up 13%. Good strong asset growth. It's driven by core growth in both Europe and the Americas. The profitability, the segment profit was driven by emerging markets. Europe was up 11% in total and that was driven by Central and Eastern Europe up very strong. Asia was up 34%. That is driven by Korea, Southeast Asia, Australia, New Zealand.

The Americas were down 4%. They had good volume growth and productivity but was offset by higher provisions and write-offs and that was driven by delinquencies. Delinquencies overall you can see are down globally for GE Money but they are up 35 basis points in the US. Our team has tightened underwriting. We have lowered credit lines. We have added collectors so we are getting in front of this. Delinquencies are basically coming off their historic lows but they are back to about 2005 levels now in the Americas. So the fourth quarter outlook, segment profit up 5 to 10. We expect continued good global growth and continued pressure in the Americas.

On the right side is Industrial. Lloyd Trotter and the team delivered 6% segment profit growth. It's up 10% if you adjust for the impact of dispositions like Supply and Mod Space. We also in the quarter reorganized Industrial. Jim Campbell continues to run the C&I business and Charlene Begley now heads the Enterprise Solutions business which includes businesses like Sensing, Security, Digital Energy and Equipment Services.

So for the quarter, top-line growth was driven by the enterprise solutions business. C&I was up 2% driven by Lighting. Appliance revenue was down 1%. The retail business was up 1 but it was offset by contract. The builder channel which was down 5 as you would expect. Global Lighting revenue was really strong. It was up 16% driven by ecomagination products like CFLs and when you look at the segment profit up 6%, it was driven by C&I. Lighting was very strong. Enterprise Solutions also had a very strong quarter and the fourth-quarter outlook for Industrial segment profit up 10 to 15.

Next is NBC Universal. Jeff Zucker and the team delivered their fourth quarter in a row of positive earnings growth. Revenues of $3.8 billion were up 3%. The segment profit was up 9%. We are really pleased with this progress and just to go around the different elements of the turnaround that we continue to give you updates on, the network is performing very well. Tied for first in the demo season to date.

Bionic Woman is the number one new show; The Office is the number one comedy. Heroes is number one on Monday night. Sunday Night Football is very strong and the fact that we own our content is really helping the studio and the TV network. We are monetizing Heroes. We are monetizing The Office, and even House, which is not on our network but we produce it is tremendously strong and scatter pricing if you look at the network is up 25%. So network is really good.

Entertainment and info cable continues the strong performance. USA number one, Sci-Fi number seven. Bravo had its best summer ever. MSNBC and CNBC up double-digit and we added to our cable assets with the Sparrowhawk and Oxygen acquisitions building out our global network and our cable platforms.

And if you look at Film in Parks, we had a great summer overall. The strong performance was led by the Bourne movie which far exceeded expectations. Chuck and Larry, Knocked Up, and we were number two in domestic box office for the summer which bodes well for the next six months when you look at the follow-up DVD stream. Parks had the best quarter ever and in digital we continue to grow. NBC Direct and the new site, Hulu, is going to launch next month and we have got a partnership with Amazon on content.

So great content, in film, the cable, the NBC studio is all doing well and the fall season is off to a strong start. And if you look at the fourth quarter that progress will continue. Our expectation is revenues up 5 and op profit up 10 to 15.

Next is Healthcare. Joe Hogan and the team delivered results in line with the second quarter guidance. Revenues up 4 and segment profit down 1. Orders are flat globally. Service is strong but that is offset by the equipment which is down 3%. The DRA and OEC were a 7 point drag on orders so we are seeing nice growth globally. Europe is up 19%. China was up 13% offset by the Americas where orders are down 8%. Japan is also soft down 15%.

Revenues is a similar story. We have got great growth globally. You can see some of the numbers here, about a 5 point impact in the US from DRA and OEC. And then obviously that has an impact on our segment profit growth which we have shown you and you can see that in detail on the right side where you look at the dynamics. We have updated from the second-quarter guidance.

Total business op profit is on the top of the chart. You can see the impact in third quarter from OEC and DRA and the strength in the balance of the business. In the third quarter the balance of the business was up 17% and for the fourth quarter, we have a little less OEC impact because we weren't shipping last year. But overall, the strength in the rest of the business offsets the US imaging from DRA and OEC.

So when you look forward, we expect continued weakness in the imaging and continued strength in the rest of the business. We do expect OEC to begin shipping in the fourth quarter but based on timing today, it is not going to be significant for the year. It really sets us up for next year.

Fourth quarter outlook is segment profit to be about flat and on the right side, we have given you the '08 framework. If you think about '08 for Healthcare, even if we are flat in DI from continued softness in the US market, we are going to have a significant positive next year from the OEC comparisons and we do expect continued strong performance from the balance of the business leading to our 10% to 15% outlook for the total business for '08.

And finally Commercial Finance. Mike Neill and the Commercial Finance team had another terrific quarter; revenues up 17, segment profit up 12 and asset growth very strong. If you look real estate, we continue on the right side -- you can see we continue to see an outstanding origination environment. We have added $60 billion in assets over the past 12 months across the different business platforms. And if you look at the profit growth in the quarter, real estate really had a great quarter, another great quarter.

Net income of 640 was up 45%. That was driven by strong asset growth, up 49% as well strong sales performance. In the third quarter we sold 104 properties and that was about $2 billion worth of assets and even with that, we continue to invest -- assets were up about $10 billion. The portfolio quality is excellent. There is less than a 10th of a percent of non-earning assets in real estate today and the outlook is still very strong.

Capital Solutions, you can see the earnings were down 19% to $424 million in the quarter. They were impacted by the disruptions in the capital markets. We basically chose not to execute some asset sales and also by some tougher comparisons last year in the third quarter but the business is on track for a strong double-digit quarter in the fourth quarter.

And as Jeff mentioned, we did have a small impact from market volatility. This is the result of marks on our warehouse and some of our securitized retained interest. I think if you'd compare that to anybody else in financial services, it is an incredible result and that is because we underwrite to hold. We are mostly senior secured. We have got great delegation and risk limit disciplines and the team did a terrific job of working their way through the market this summer.

For the fourth quarter if you look, the positives are incredible asset growth, high-quality portfolio. We are anticipating a little slower earnings growth in real estate versus the pace they have been on and overall the Commercial Finance outlook for the fourth quarter, segment profit up around 10%.

So with that, let me turn it back to Jeff.

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

Keith, thanks. I just want to recap how the Company looks going forward and particularly in the environment that we are in today. I feel great about the overall outlook for the Company.

If you just tick down the businesses and how they are positioned, Infrastructure is about 37% of our profit. We believe that we are very well-positioned with strong backlogs, great global growth, good technology and we are still in the early innings of we think the big Infrastructure build -- building big installed bases with service revenue yet to follow. If anything, the equipment growth has been surprising from the standpoint of how robust it has been and we feel great about how we are positioned.

In Commercial Finance, 20% of our earnings -- you know again, it's a great time to be a AAA-rated company. There has been a big repricing of risk. Our risk policies, our spread of risk, the great mobile origination we have I think really bodes well for the Commercial Finance business.

GE Money, we have eliminated I think two of the drags. I think we were an early mover in mortgages and removing the headwind from Japan and I think we have got a nice global position and strong track record of growth. Healthcare is 11% of our earnings. You know, let's face it, we are going to have easier comps when we go into 2008 and the addition of OEC we believe will be a positive.

NBC Universal we feel great about the momentum that we have got, great cable and film performance. The network turnaround is progressing. We have got real momentum in that business and it is setup for a solid double-digit earnings growth in 2008.

Industrial is 8% of our earnings. I think you know we have really eliminated all of the feedstock and related businesses like Plastics and that now is a platform of high-tech and brand advantage businesses.

So I think when you look out over the next 12 to 18 months, GE has got great position with strong businesses globally positioned, new technology, and big backlogs and is well positioned to grow.

Just to recap, I think we are on track to deliver a solid 2007; strong business momentum going into the fourth quarter. The gains have been used to restructure the businesses and to fund business exits. The organic growth rate is real and continues to drive tremendous momentum and we have got 70 basis points of margin expansion in hand. We are trying to push for more than that but we have got good momentum on our programs and I think from a capital allocation standpoint, we have improved the portfolio and we are returning an immense amount of capital to the investors and we are well-positioned for a total year of $2.19 to $2.22, up 18% to 19%.

I think if you just step back and recap the first three quarters of the year, look, we sold Plastics and redeployed that capital to buy Vetco Gray, Smiths, some high-tech Industrial businesses and NBCU cable. So tremendous trade of assets we think there.

We used the gains from Plastics to lower our cost structure and reduce risk for the long term. So we feel great about how that has been redeployed. We are returning $26 billion to shareholders in the form of a buyback and a dividend and we have positioned the Company for strong growth in global markets with high technology initiatives. Again, I think we feel like the Company is in great shape and well-positioned for a strong fourth quarter and 2008.

So Dan, let me turn it back over to you.

Dan Janki - ***General Electric - VP of IR***

Okay, thank you. Bill, we'd like to open it up for questions.now.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Bob Cornell, Lehman Brothers.

Bob Cornell - ***Lehman Brothers - Analyst***

You know, a couple of questions sort of on the forward-looking category. You have been talking about the big order growth so forth and so on in Infrastructure in particular. And maybe you could give us an idea what are the -- how do the margins look in that backlog relative to what has been reporting? Obviously you have got to do a strong fourth quarter but maybe just to take a bigger look at that profit stream looking all the way out into '08 and beyond?

Keith Sherin - ***General Electric - CFO***

Well, you know we are expecting to be able to grow our margins and Infrastructure as you look forward, Bob. I think the good news is that if you look at orders price for us, if you go to Aviation, the new engine orders price that we are seeing is about 4% up. If you look at the Gas turbine orders we have got, it's 10% in the quarter; year to date, it is up 8%. If you look at the wind orders, they are up 7% and we are starting to see that just start to roll into the equipment sales a little bit in the third quarter.

Overall price for the Company was up about 7/10 of a percent and just more than offset inflation but we are only starting to see those orders that we were getting better price starting in the second half of last year coming into the start of sales. So I think you are going to see that start to improve.

I think the second piece is going to be the acquisition dilution and margin effect from Smiths and Vetco certainly doesn't continue into 2008 because you have got the comparison as well as the synergy teams that are working like crazy to not only help grow the business but get those margin rates up. That is a real opportunity for us. You know today those two businesses are somewhere around 10% margin versus the Infrastructure average. So that is the second thing that is an opportunity.

And I think the third thing is we are going to continue to see equipment deliveries grow at a faster pace than services. That is a good news effect in total as we set about building the business but we do expect Infrastructure to be able to grow its margin somewhere close to 100 basis points which is what we are driving for the whole Company for 2008.

Bob Cornell *- Lehman Brothers - Analyst*

Thanks. The other point you mentioned was the asset growth and high margins and the finance side. I mean how much of a margin improvement in that asset growth are we looking at?

Keith Sherin *- General Electric - CFO*

We are going to work and show you how that rolls through the portfolio. Basically our average asset period somewhere in Commercial Finance might be three years so again if you assume that you are starting to see better returns on both debt and equity investments in the third quarter, you know that's going to take awhile to roll through the whole portfolio.

But clearly the capital from the disruptions in the market we saw the sum of the capital we are putting to work today is at better returns and we are very pleased with that and that is going to help Commercial Finance business going forward. But it takes a while to roll through in terms of the total portfolio because of the size.

Bob Cornell *- Lehman Brothers - Analyst*

Got it. Thank you.

Operator

Jeff Sprague, Citigroup.

Jeff Sprague *- Citigroup - Analyst*

Thanks. Good morning. Could you just explain, Keith, how the taxes played out in GE Capital? I guess I am just a little bit confused. If WMC and Lake kind of in aggregate were losing money in the first half, why would there be a positive reversal? I would think you would've had a tax negative tax accrual in the first half.

Keith Sherin *- General Electric - CFO*

Yes, that's a great question. I think the way I would explain how it lowers the third quarter -- let me try it a little differently. If you look at the first half, the GECS rate as reported was 11% and that included one half a year's tax impact from the large losses that we had in both WMC and GE Money Japan at those high tax rates because we have to include ongoing effects relative to the year rate not in the time that they just occur. So even though we had large losses in the first half, those losses were basically included in our total year estimate.

So if the GECS rate was 11% in the first half, when you put WMC and GE Money Japan into discontinued operations, the first half GECS rate went up to 18%. Now the only way to get the third quarter rate in line with the year rate was to reverse those first-half tax provisions. So taking WMC and GE Money into discontinued ops resulted in a reversal of tax provisions from the first half.

On a year-to-date basis if you look at those rates, we are right in line with what we expected but the credit in the third quarter is coming because we had deferred some of those tax benefits into the second half.

Jeff Sprague *- Citigroup - Analyst*

And how big was the credit in the third quarter?

Keith Sherin *- General Electric - CFO*

The credit was about $190 billion and again if you look at the total dynamics here, you have got higher restructuring. You have got lower pretax earnings because some of it from the restructuring and some of it just from the lower pretax earnings. Those also drove down the tax rate a bit. But on the WMC and GE Money, it is about $190 million, Jeff.

Jeff Sprague *- Citigroup - Analyst*

So that implies the ongoing GE Capital tax rate is like 6% in the quarter though, right?

Keith Sherin *- General Electric - CFO*

No, I think if you look at it with X added, it is going to be at the 13% year-to-date rate.

Jeff Sprague *- Citigroup - Analyst*

And just to clarify, is all the restructuring is below the line in corporate from a reporting standpoint or is some of it in the segment numbers?

Keith Sherin *- General Electric - CFO*

No, the restructuring is in the corporate line. I think if you look at the income statement and the corporate items and eliminations, it is a negative 600 in the quarter. I noticed there was some questions about that in the pre-notes. We have about $800 million of restructuring pretax in that line as well as the corporate costs. The offset in that line that isn't readily apparent is the tax credit is going into that line.

So the offset to the restructuring is a tax credit for the reversal of those provisions in the first half, about $190 million. And in addition because of our restatement, we had about $100 million adjustment last year that makes that variance look a little higher as well. So the restructuring is partially offset by the tax benefit and the restatement that we had last year.

Jeff Sprague *- Citigroup - Analyst*

Thanks a lot.

Operator

Stephen Tusa, JPMorgan.

Stephen Tusa *- JPMorgan - Analyst*

Hi, good morning. Just a quick question on Healthcare. You maintain your guidance -- I think Joe Hogan was speaking at a conference in September and he mentioned that there is a line that said in the presentation US DRA imaging down 20%. Is he just talking about the specific business that is impacted by DRA? I am just trying to calibrate that with the fact that you are kind of reaffirming your flat guidance for US imaging.

And then the follow-on to that would be what really gives you the confidence there? Is it playing out as you would have expected or maybe you can just give us an update on where things stand there and the data points you are seeing from the field?

Keith Sherin *- General Electric - CFO*

Sure. If you look at the orders -- I am not sure exactly what Joe was referring to but I can give you a couple of data points. Number one, if you look at the orders impact on DRA in the US, it is somewhere around 20% to 30%. It varies by modality. Overall DI is down about 20% in the third quarter from DRA. So I think he is referring to orders.

And then if you look at the impact of US imaging, I think if you look at our schedule that we have given you, the dynamics, we would show that because of that impact of orders and sales being down that is driving in the third quarter had a 12% drag on our op profit in Healthcare and then we expect it to be somewhere around 10% to 15% in the fourth quarter. And I think if you look at next year, you are going to have a much better starting point comparison that we are going to deal with.

Jeff Immelt *- General Electric - Chairman and CEO*

Steve, I would just say it is getting no worse. It has stayed at a depressed level and so I think when we look at 2008, we are not going to count on any improvement but we are not going to count on it getting worse either.

Stephen Tusa *- JPMorgan - Analyst*

Okay, got you. And then this one last quick question. You guys gave the guidance for Infrastructure after the second quarter and then we just had this meeting a couple of weeks ago. And everybody talks about Infrastructure as being a visible business. I mean that's what we love about it. Should we expect quarter to quarter what I would call maybe bumps in the road like this where maybe it comes in a little bit light of expectations but just assume that over the course of time, it is going to be as visible as we would want it to be?

Jeff Immelt *- General Electric - Chairman and CEO*

Steve, I still think Infrastructure is going to be on for the year. We are going to have really a boomer in Q4 as Keith kind of pointed out. I think there is always going to be some specific moves. I think from a discretionary standpoint, we decided to heavy up some of the technical spending. We have got some big technical launches underway in both the Aviation and the Energy business. And we do that in a discretionary way to the tune of about $100 million but that doesn't repeat.

And then I would say some of the service contract timing and things like that might go quarter to quarter but look, I mean if you looked at all the fundamentals of backlog growth, of spares growth, of wind, of margin pricing, of CSA development, of globalization, you know this is a boomer. So it is about from in terms of how I build my model, it was about $185 million off in the quarter from a 20% goal that we had and that was really all driven by discretionary stuff that we think is going to improve Q4 and 2008. And those things happen.

When a company our size and Rice is running a $60 billion business, you are going to get some of that but this business couldn't be any better positioned than it is right now with extremely high visibility.

Stephen Tusa *- JPMorgan - Analyst*

Right. Thanks a lot.

Operator

Nicole Parent, Credit Suisse.

Nicole Parent *- Credit Suisse - Analyst*

Good morning. I guess, Jeff, first I'd love to hear your perspective on M&A. You have been active buying Oxygen and if we believe the market speculation out there this week alone, we would think you are buying everybody under the sun. And I guess with respect to security, strategy now that you are not proceeding with the Smiths JV, could you just remind us where you are seeing additional portfolio moves going forward?

Jeff Immelt *- General Electric - Chairman and CEO*

Nicole, again I think we are committed to the buyback this year. We are going to at the end of the year we are going to announce another buyback in 2008 and beyond. You know, Nicole, I like where the portfolio is right now. I think we have got a lot of engines of growth that are out there today that can keep us going forward. I think what Keith and I have talked about is an Industrial acquisition level that is in the 3 to $5 billion range. I think that is pretty much what I am looking at on the buy side.

And on the sell side, look, I think we are committed to opportunistically looking at the portfolio and where there are businesses that we can't -- you know that we can't run that well that we think other people can run it better, we are going to look for opportunities to sell those businesses. So look, I just think we are disciplined and we are going to execute the same plan we outlined in the second quarter.

Nicole Parent *- Credit Suisse - Analyst*

Okay. And I guess with respect to Healthcare, how do you think about additional DRA cuts in 2008? And this might be a stupid question, but why do you think you can recoup the loss on the OEC sales given that you haven't shipped anything all year? What would make the customer come back next year?

Jeff Immelt *- General Electric - Chairman and CEO*

Nicole, I would say on the first one, again, a lot of this is going to be decided in Washington but I would believe that we have stated our case on DRA pretty clearly and we think it is good technology and good science and pro-patient. So I think that is a pretty broadly held view and we believe that what has already been done is they are going to let it settle in and we are not going to see additional cuts in 2008.

On the OEC side, you know, Nicole, this was a great franchise -- is a great franchise. We have got $200 million of backlog, very little of it has been canceled. We have a superior product. We are working very constructively with the FDA to you know to resume this business. But this -- when we went into the consent decree, this was maybe one of the strongest is not the strongest franchises in our entire portfolio.

Nicole Parent *- Credit Suisse - Analyst*

Okay, great. And one last one on Aviation. Could you give us a little bit of color on what the incremental R&D spend was on? Was it incremental business jet? And could you also update us on any impact tied to you guys as you look at the 787 delay Boeing announced this week?

Jeff Immelt *- General Electric - Chairman and CEO*

The spend -- there is a couple of big programs there. Clearly the GEnx for the 787, the LEAP 56 which is the next narrow body and the Honda which is going -- the Honda JV which is going to go in the biz jet market -- these are all programs that we're funding. I think on the 787, Keith, you spoke with the business on the 787. I don't think it has any impact on us (multiple speakers).

Keith Sherin *- General Electric - CFO*

No. We are going to continue our development program on the original schedule and so we are going to continue to work with Boeing to make sure that we deliver all our commitments and we don't anticipate that that is going to have a big impact on us.

Nicole Parent *- Credit Suisse - Analyst*

Okay, great. Thanks.

Operator

Deane Dray, Goldman Sachs.

Deane Dray - ***Goldman Sachs - Analyst***

Thank you, good morning. Regarding the turmoil the credit markets just has continued to go through, it looks like GE clearly benefited from a AAA credit rating. And I would be interested in hearing from a funding side and if you could quantify the activity on the short end from commercial paper demand; on the long end, you were active issuing 60-year paper. Where and how could you quantify where that AAA benefit came in?

And then a related question is in terms of -- given the size of the portfolio, it looked like your marked to market between those two points you called out the warehouse and securitized retained interest, looked pretty small and is this an ongoing review process or you feel like that has been sized?

Keith Sherin - ***General Electric - CFO***

First, during the summer we had a tremendous advantage as a AAA Company. There was clearly a flight to quality. We never had any turmoil in our CP funding, Deane. During the month of August, we issued $18 billion of long-term debt in some pretty choppy markets. We had on one Friday a large state pension fund called us and asked if they could give us $5 billion. So there was definitely a flight to quality in the summer.

Our CP was trading at 100 basis points lower than asset-backed conduits which demonstrated the confidence in the ratings. So the AAA really was a huge value for us in the summer. You know in terms of the mark to markets, again, if you look at our business model of origination for putting it on the balance sheet in Commercial Finance, that served us well. We are very disciplined around being a senior secured lender. Our total warehouse for mezzanine and subordinated debt was $100 million at the end of the quarter.

So again, this is a set of risk management principles and underwriting principles and origination principles that has served us pretty well. You know clearly we think that everything we did in the quarter was related to the disruptions that we saw in the marketplace and it is not a continuing effect for us.

Deane Dray - ***Goldman Sachs - Analyst***

And just as a follow-up on GE Money with regard to delinquencies, it really looked reasonably contained. What are you modeling for the next couple of quarters on delinquencies and what should the expectations be regarding additional reserves?

Keith Sherin - ***General Electric - CFO***

Well if you look at the quarter, I showed you the delinquency rate in the Americas was up about 35 basis points. If we look going forward, we think we are going to continue to see delinquencies at those levels and we added about $200 million to the provision for GE Money in the quarter. That is in line with the delinquencies as well as the asset growth. And we expect to continue to see pressure in the Americas.

We have got to see how housing plays out, see how the consumer does in the fourth quarter but we are anticipating that we are going to continue to see those delinquencies and continue to strengthen provisions as we go into the fourth quarter.

Deane Dray - ***Goldman Sachs - Analyst***

Okay, thank you.

Operator

Scott Davis, Morgan Stanley.

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

Good morning, everybody. It was a little bit of a confusing quarter but if I was to take kind of some of the bullish takes here, I think what you are talking about is a pretty strong improvement in backlog and pricing. You have improved restructuring. I guess the root of my question is do you think that is enough to get to your 100 basis points a year margin target because you know we will fall a little bit short this year of course.

Keith Sherin - *General Electric - CFO*

I think it is going to be pretty strong. I think if you look at one of the drags obviously this year versus our target, is Healthcare. I mean Healthcare is a business that has got great operating profit rates but being flat for the year that is about 30 basis points off our target on its own. It is only 10 basis points drag year over year but versus our target, it is 30 basis points.

So I think obviously the improvements that we are expecting in Healthcare as well as the benefits that we see in Infrastructure pricing, backlog growth, improvements in Smiths and Vetco, we are feeling pretty good about getting to 100 basis points next year.

Jeff Immelt - *General Electric - Chairman and CEO*

Scott, it is going to be one of the three or four metrics that people get paid on, the senior managers of the company. That was here this year so a few people are going to miss and it is going to be in place next year. Look, we think with the kind of visibility in backlog we have got now that focusing on the supply chain and lowering costs, we have got some real margin upside here.

Scott Davis - *Morgan Stanley - Analyst*

Let me play devil's advocate with you a little bit. You have been showing pretty strong improvements in your backlog now for really probably seven or eight quarters and pricing has really just started to pick up in the last quarter. So I know there's some exceptions to that but is it possible that maybe some of your guys have been swinging a little bit aggressively at market share and volumes that when you maybe could have gotten a little bit more aggressive on price and that has had some profit impact?

Jeff Immelt - *General Electric - Chairman and CEO*

Well I think if you'd segregate the businesses, Scott, in Aviation that is probably true but that would have happened in 2003. So basically you have got a time lag of a couple of years and coming out of 9/11 you know we are shipping still things that were post-9/11 where clearly people had no idea where the commercial Aviation industry was going to go. That's not true today. So I would say what is coming back in the backlog is truly at a higher price.

On the Energy side, we are actually seeing that today and it is just getting wiped out by the incredible growth in product versus service. But on balance, you know Scott, I think with the restructuring we have been able to do and the pricing we've got in the backlog, we feel pretty good.

Scott Davis - *Morgan Stanley - Analyst*

Okay. Just lastly, the language you gave on the macro environment in the press release I think you used -- or the presentation -- okay. Can you get into that a little bit further? I mean are you seeing -- I know certainly your Infrastructure businesses, you are clearly not seeing much of any pullback. Appliances was a little bit weak as you would expect just given the housing market but is there any other indicators that you look at that lead you to believe that we could be running into some problems here in the US?

Jeff Immelt - *General Electric - Chairman and CEO*

I would say globally you know, Scott, I have been kind of around the world in the last month or so and the global economy remains extremely robust. And I just don't see any signs of a slowdown almost anywhere. We picked up a big turbine order in France last week and I could go down the list of just both developed country and emerging market growth.

I think the US housing remains very tough and we don't see any imminent improvement in housing necessarily but the other economy around housing, light Industrial, commercial stuff like that still appears to be in positive territory. So global is strong. US housing tough, but the rest of the US seems fine to us.

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

Okay. Great color. Thanks guys.

Operator

Robert McCarthy, Banc of America.

Robert McCarthy - ***Banc of America Securities - Analyst***

Good morning, everybody. I just want to follow up on some of Scott's comments about the global environment. If we could just drill down into kind of first globally, we do have a weak dollar out there and some of your peers have suggested that over time in 2008 that should probably prove to moderate some of the economic growth and resurgence we have seen coming out of the euro zone region. And alternatively there has been some anecdotal signs of at least a step down in terms of investment prospectively coming out of Asia.

I mean do you have any comments there? I know you are fairly long cycle in a lot of your businesses particularly in Infrastructure but are you seeing any signs there or would you expect to see some deceleration in the back half of 2008?

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

Rob, I am not an economist but I just can give you a sense of -- look -- I was in Asia, I was in Japan, China, Malaysia, Vietnam and I saw no signs of -- whether it was Aviation, Healthcare, Oil and Gas, Energy. You know I was in some of the towns outside of Shanghai and Beijing and there are cranes everyplace so we will do $1 billion in Vietnam. It is just there is just lots of stuff going on globally.

And then from a European standpoint, Eastern Europe, Russia, Turkey and even the developed part of Europe for the products we are selling which are Healthcare, Energy, Aviation, Oil and Gas, we just see tremendous long-term growth in Infrastructure. So I think there maybe the currency slows down some of the more flow type products, automotive and things like that, but we don't see it changing commercial Aviation. We don't see it changing the need for Infrastructure.

Robert McCarthy - ***Banc of America Securities - Analyst***

You will be somewhat insulated due to your long cycle nature (multiple speakers)

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

Look we have got more in backlog than at any time in our history and I would say our visibility at least in this business at least through the end of '08 is pretty precise.

Keith Sherin - ***General Electric - CFO***

I think the petro dollars are another factor, certainly driving a lot of our growth but we had turbine orders in Ireland, in the UK and Spain in the third quarter. So we are seeing developed markets need to add capacity and our Gas turbines are going to be the most environmentally friendly and the quickest type of power generation capacity that can be cited.

Robert McCarthy - ***Banc of America Securities - Analyst***

Right. Switching gears to the US then, obviously there has been a lot of concern around the state of the US economy and commercial construction in particular following the residential downturn we have seen here. Given the fact that you have a commercial real estate business and selling to non-residential construction, any kind of view there of any kind of change in the margin?

Jeff Immelt *- General Electric - Chairman and CEO*

I would say the commercial real estate market remains reasonably good, Rob, because there is still a shortage in certain cities. It is a very town by town kind of dynamic. And then I think on the commercial construction side you know schools, hospitals, governmental type stuff is still very robust and that you can see that in a pretty strong Lighting and pretty strong Industrial growth rate even in the US.

Keith Sherin *- General Electric - CFO*

Sure, I would agree. I think our financing volume -- in our capital solutions business, we had a strong double-digit growth in the third quarter in financing volume and that is middle market.

Robert McCarthy *- Banc of America Securities - Analyst*

All right. Fair enough. And then if you'll indulge me on just one more question. On Lighting, you announced pretty significant restructuring there and that business seems to be undergoing you know a fair amount of change overall on the underlying industry dynamics with technology Energy efficiency etc. You've seen that in some pretty nice growth coming out of that business.

Is that a business that is kind of at a crossroads for the portfolio in the sense that you really haven't actively been investing in it all that much but you may have to have some incremental investment going forward even perhaps acquisitions? I mean some of your competitors may be even trying to enter into the US Lighting fixtures market. What is your view of that business over the near to medium term? Would it be something a candidate for exit, divestiture, or because it seems you have to basically invest or think about an exit?

Jeff Immelt *- General Electric - Chairman and CEO*

What I would say, Rob, is the -- being able to use the Plastics gain to lean into taking real significant actions on the incandescent side I think was a big help. And I just think having the plastic gain to just do that, get out of subprime, get out of Japan and consumer finance, that is really helpful.

There is going to be a renaissance of technology in the Lighting business, some of which we will invest in ourselves but having again just been in Asia, I think we have got great opportunities to do some of the same things in Lighting that we have done in appliances effectively which is there are all kinds of chip manufacturers in Taiwan and China who we think can provide very excellent outlets for LED technology and same way with CFLs. So we feel like we have got plenty of global opportunities in that business to do whatever we need to do over time.

Robert McCarthy *- Banc of America Securities - Analyst*

Thanks for your time.

Operator

Nigel Coe, Deutsche Bank.

Nigel Coe *- Deutsche Bank - Analyst*

Thanks, good morning. So given the turmoil in the financial markets for the last quarter, can you just talk very broadly about how this makes you think about GE Capital and some of the out exposures in GE Capital? And then a narrow question on -- the funding within GE Capital. Obviously we saw a shock in lock down in the commercial paper market and I know it didn't impact you but do you see yourself shifting more from short paper to long paper over time?

Keith Sherin - ***General Electric - CFO***

Let me start with the funding question and then we'll go back to the asset exposure. I would say if you look at the funding question, we will continue to do more long-term term debt not because of a particular view on necessarily short-term rates or whatever, but really from a funding planning perspective so that we have manageable amounts of long-term debt that matures each year and keeps our funding needs at a pretty steady pace as you go forward over the next five years.

So I think we have about $90 billion of commercial paper. We are going to continue to have commercial paper around that level and the growth in assets will be funded by more term debt. You know in terms of asset exposure, if you look at the Commercial Finance business, you know for us we feel like we are in a great position today.

We are seeing opportunities to put capital to work, senior secured position 70% loan to value, senior secured debt at $0.95 to par on deals that we have underwritten. We know the Company well; we know our money well. So we are putting capital to work today in places that are higher returns than we have seen in the last three years for debt type structures. So that is a great opportunity.

I think if you look at our global leasing and loan portfolio, companies' balance sheets have never been in as good a shape as they are today. Our delinquencies are at all-time lows and the customer portfolio and companies have basically improved their balance sheets dramatically in terms of deleveraging and dealing with global competition.

And then the real estate business, as Jeff said, we feel like we have got a terrific franchise. Again, everything around that business is driven by supply and demand and critical underwriting of what's the capacity outlook for the region and pricing and replacement costs. And there is nothing about that that doesn't say that replacement costs are going to be tougher in any one of the major regions where we have invested in real estate. So I feel great about the real estate business as well.

Jeff, I don't know whether you -- add to it?

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

Look, I think there is going to be more opportunities to grow in Commercial Finance, not just in the US but globally. Created by these dislocations and at higher margin rates.

Keith Sherin - ***General Electric - CFO***

And I think the other fact is you know in a time cycle like this when capital is a little tougher for companies to get, it as a great time to have a balance sheet like ours where we can provide financing to our customers. So that is coming back our way a bit as well, Nigel.

Nigel Coe - ***Deutsche Bank - Analyst***

Sure. Just one more question and perhaps you have answered that question already but it sounds like you've got lots of opportunities for growth in GE Capital given the environment. But is there any debate about maybe stepping up the payout ratio from 40% to maybe 50% given there is obviously a huge amount of capital deployment within the GE parent with the buybacks and acquisitions?

Keith Sherin - ***General Electric - CFO***

You are talking about the dividend out of GECS?

Nigel Coe - ***Deutsche Bank - Analyst***

Right.

Keith Sherin - *General Electric - CFO*

Right now we are anticipating just leaving it at 40%. Again, if you look at the last several years it has been far in excess of that because of all the insurance dispositions we have dividended those proceeds out. But right now I would say the framework is to keep it at about that level.

Nigel Coe - *Deutsche Bank - Analyst*

Okay. Thanks.

Operator

David Bleustein, UBS.

David Bleustein - *UBS - Analyst*

Good morning. Two quick ones. First, can you break down the Gas turbine orders between domestic and non-US?

Keith Sherin - *General Electric - CFO*

There were no US orders in the quarter for Gas turbines. Those were all global.

David Bleustein - *UBS - Analyst*

Okay. That's easy. And second, can you walk through your thoughts behind the 787 delay? I know you said there is no immediate financial impact but what type of delay out of Boeing would cause a material impact to you and how would you quantify the odds of a further delay?

Keith Sherin - *General Electric - CFO*

Well they haven't issued a new production schedule by customer yet, so that is a little hard. I think if you think about it just financially for us, number one we are going to continue our development program to make sure we meet all their needs; and number two, those early engines that go out are not going to be high-margin engines. So I think -- I do not have it all quantified because we do not have any detailed production schedules from Boeing yet, but again that is why I am reasonably confident saying I do not think this is going to have a big impact on us.

David Bleustein - *UBS - Analyst*

But in your experience with these programs, once there has been one delay of this magnitude is there usually another?

Jeff Immelt - *General Electric - Chairman and CEO*

David, we are not going there. I just -- you know we are going to take care of our end of it and make sure that both in terms of our engine and in terms of what Smith's is committed to that those are done with excellence.

David Bleustein - *UBS - Analyst*

Perfect. Thanks a bunch.

Dan Janki - *General Electric - VP of IR*

Phil, we would like to take the last question.

Operator

Certainly, sir. Ann Duignan, Bear Stearns.

Ann Duignan - ***Bear Stearns - Analyst***

Hi there. Most of my questions have been answered, but I was just curious, Jeff, what is your long-term vision for the Oil and Gas business? Do you see that business expanding more into services or are you comfortable with the portfolio you have built in that segment as of today?

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

You know, Ann, we have been able to digest the subsea very successfully. I would say that the Vetco Gray acquisition is probably at least a $100 million above deal case. So I want to keep us on the technology side of the business and we will continue to look at niche technologies as time goes on.

It is going to be about a $7 billion business run rate today. There is no reason why it could not be bigger, but we have got such great organic growth opportunities in the business that I do not feel a compelling need to do big acquisitions in that space right now.

Ann Duignan - ***Bear Stearns - Analyst***

Okay, thank you. There were some rumors out there about moving into services, so thanks for that.

Peter Nesvold - ***Bear Stearns - Analyst***

Hey Jeff, it's Peter Nesvold. On the capital side, you have continued deceleration in profit growth at GE Money going to potentially high single digits in the next quarter. And I was hoping you could elaborate a bit on what is driving that? Is it lower originations, higher reserves or something else?

And as a follow-up to that, in the past several years you've talked about GE Capital being a 15% type consistent earnings grower and are we hitting a point in the credit cycle where that is not going to be sustainable for the next year or two and will be below that trend?

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

Peter, your question was on GE Money?

Peter Nesvold - ***Bear Stearns - Analyst***

Yes.

Keith Sherin - ***General Electric - CFO***

The first piece? You know, I think if you look in the quarter, global growth was tremendous. We got great asset growth. We had nice profit growth in both Asia and Europe and the drag came in the Americas. The Americas was down about 4%, and I think it is all going to be related to both our credit card book and our retail sales finance book here in the US. And we are going to watch how the consumer does, and you know it is pretty formulaic. If the delinquencies rise, our reserves go up, our provisions go up. And so you saw that impact in the quarter. The $200 million increase in provisions here in money was mostly related to the Americas book, and you know we would anticipate that that is going to continue to be pressured. I think that is a driver for that. If you look at overall GECS growth, really it is a function of the ROEs and the retained earnings. And at the end of the day with a 25% ROE and a 60% retained earnings, we ought to be able to grow our earnings around 13%, 14%. And that is the framework that we are operating under. It is a self-funded checkbook. It is something we are very disciplined about, and all the teams get their capital allocated based on their returns.

Peter Nesvold *- Bear Stearns - Analyst*

And then last final follow-up question on GECS, I noticed on -- in GE Money and equipment financing, the on book versus off book delinquencies we are seeing a divergence there. Any color you can provide around that?

Keith Sherin *- General Electric - CFO*

I am going to have to get back to you on that. Non book versus off book, I didn't get into that in the prep here.

Peter Nesvold *- Bear Stearns - Analyst*

Okay.

Jeff Immelt *- General Electric - Chairman and CEO*

I just wanted to thank everybody for attending this morning. We had a lot going on in this quarter but I think the Company's fundamentals are great. We delivered in a quarter that had lots of external volatility and a few specific one-time items inside the Company. But we have got accelerating earnings going into Q4. We feel great about the long-term focus of the Company.

We have got some really great businesses; Infrastructure in great shape, commercial money, Commercial Finance and GE Money in very solid shape; NBCU improving. Strong Industrial franchise and a Healthcare business that is positioned for better performance in 2008. So we feel great about where the company is.

Dan Janki *- General Electric - VP of IR*

Great. Thank you, Jeff. Joanne and I are available all day for your calls and also today's replay and transcript will be available at our website. So thank you very much.

Operator

Thank you very much, sir. Thank you, ladies and gentlemen, for your participation in today's conference call. This concludes your presentation for today. You may now disconnect. Have a good day.

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