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General Electric Company Q2 2009 Earnings Call Transcript

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General Electric Company (GE)

Q2 2009 Earnings Call

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Executives

Trevor Schauenberg – VP, Investor Communications

Jeff Immelt - Chairman and CEO

Keith Sherin - Vice Chairman and CFO

Brackett Denniston – Senior Vice President, General Counsel

Analysts

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Stephen Tusa - J.P. Morgan

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Jeff Sprague - Citigroup Investments

John Inch - BAS-ML

Stephen Whittaker - Sanford Bernstein

Presentation

Operator

Welcome to the General Electric second quarter 2009 earnings conference call. (Operator Instructions) I would now like to turn the program over to your host for today's conference, Trevor Schauenberg, VP of Investor Communications. Please proceed.

Trevor Schauenberg

Thank you. Good morning and welcome, everyone. Joanna and I are pleased to host today's web cast. Hopefully you have the press release from earlier this morning. Slides are available via the web cast. Slides are also available for download and printing on our website at www.GE.com/Investor. If you don't see it please refresh.

As always, elements of this presentation are forward-looking and are based on our best view of the world and our businesses

as we see them today. Those elements can change as the world changes. Please interpret them in this light.

We will be reviewing the GE press release that went out earlier today and have time for Q&A at the end. For today's web cast we have our Chairman and CEO, Jeff Immelt, our Vice Chairman and CFO, Keith Sherin and our Senior Vice President and General Counsel, Brackett Denniston.

Now I'd like to turn it over to our Chairman and CEO, Jeff Immelt.

Jeff Immelt

Good morning, every body. On the first page, the overview, despite a difficult global economy we are pleased with our results. Overall earnings of $2.9 billion. Energy and technology infrastructure continue to perform. GE Capital was profitable and media and C&I basically were down versus last year.

Our execution is very good. Our cash flow is ahead of plan. We generated $7.1 billion in industrial cash flow year-to-date. We were able to do substantial restructuring in the quarter. Our margins were basically flat year-over-year and our backlog remains strong. We announced during the quarter several investments in new products, technology centers. Our R&D spending was greater in 2009 is greater than 2008. We are pursuing stimulus projects.

Basically all the things we said we were going to do in the last period of time we have really executed on in this cycle. If you look at the environment and the global landscape not much has really changed from how we saw it in at EPG. Unemployment, CapEx and commercial credit all remain challenging. We are seeing growth in selected markets. Parts of the globe are still robust; China, the Middle East, India and places like that. Deflation is helping our margins. Importantly, customer usage helps our service business. Existing assets are being utilized early and we have got great traction of services.

The stimulus was really a non-factor in the first half but we see momentum building and the capital markets are improving. All of these things we talked about at EPG are underway. We talked about, on the next page, how we were going to execute through the recession the operating framework for the company. I'll give you an update on where we really stand on each one of these fronts.

We really talked about three things. Making GE Capital safe and secure. Out performing in a tough economy and strengthening the balance sheet. I will go through some of the details and updates from the second quarter in the next few pages.

The first one, on GE Capital safe and secure, we really have made substantial progress on leverage, funding and the balance sheet. First on long-term debt funding, 2009 is done. 2010 is partially done. 2010 we plan to have done by the end of this year. We plan to issue more unguaranteed debt this year.

Commercial paper is already at our year-end target and cash plus back up lines are more than double our commercial paper so we are very strong there. We have reduced our leverage to 5.6 to 1. Our tier one common ratio is equal to the strongest banks. Our ending net investment we have already achieved roughly $500 billion, our 2009 goal. We expect that to trend lower in the next two quarters. Our collections are strong and we will show you a lot of detail about GE Capital on July 28th but we feel very good about how we are executing in this cycle.

On the next page this is talking about orders and backlog. We had about $18 billion in second quarter orders, slightly below first quarter. Down about 23% in FX adjusted versus last year. We are down about 16% year-to-date. The backlog remains strong. The orders were about the same as 2006 and 2007. The backlog remains very strong at $169 billion. If you just look at the orders in some context we had a record first half of 2008. That was really the peak of what we saw for major equipment orders. We billed $30 billion in backlog over the last four year so we really expected orders to be down even without the recession.

A couple of positives about where we stand with major equipment, our cancellations are very low. Our cancellations are like $100 million so extremely low. We are holding almost $12.5 billion of progress and a couple of things I think bode well for the next six months. On energy we are really working the commitment to order conversion. The production tax credit on wind just was clarified in the last week or so. We think that is going to improve the order scope in the second half.

The roughly $8 billion we took in commitments in the Paris Air Show will convert to orders over the next six months. If you look at our backlog conversion rate and current orders and look forward maybe 12 months and you think about the fact that about 2/3 of any given year's revenue converts from backlog, and the other 1/3 represent current year orders we look at a rough estimate for 2010 with equipment revenue down about 10-15% or somewhere in that range. Just because we have such extremely high backlogs right now.

Meanwhile, service continues to perform at a very high level, up 4% orders year-to-date. We had $4.3 billion in new CSA additions in the second quarter. The service story continues to be very strong. If you look at the next page we will just take a bit of a deeper dive in service. Service in the quarter grew and revenue margins and backlog. Four of our five major service

businesses will be profitable for the year.

Energy, we see momentum building in the second half of the year as contractual services continues to accelerate. Oil and gas would have been positive in the first half on an FX adjusted basis but we see good momentum in the second half. Aviation had spare orders up 10% in the first half so again that bodes well for the second half. Healthcare we are seeing customer outsourcing so we are seeing good service revenue growth there. Transportation, you have all read about the fact that the industry has maybe 5,400 locomotives parked. About 30% of those are GE and despite that our service earnings were only down about 5%.

This is about a little bit more than 75% of our total industrial net income with high visibility well positioned for the future for 2010 and beyond. We just think from an investor standpoint this just gives us great strength when we think about where we are and positioned for the future.

A quick update on stimulus and global growth. First with stimulus we talked about with EPG having about $190 billion of potential from a stimulus standpoint. Almost nothing has come out from this so far. The major buckets are clean energy, affordable healthcare and then a scattering of other projects. We are seeing some early wins with smart grid with orders up 70%. Again, as we said, the wind tax credits have been clarified. China's spending is very strong. We are starting to get some bidding on health information exchanges and we are seeing some decent activity around the nuclear business.

If you look at it from a global standpoint some of the global regions are still very strong. China was up 31% in the quarter. India was up 46%. The Middle East was up 10% despite the fact we are only beginning the Iraq shipments and order completion. So the major initiatives are underway. Our 2009 product spend is up. We think it is in the right places and we think this bodes well for the future.

The next two charts give you an update on execution in the quarter and again we feel pretty good about how the team is executing. The second quarter margins were basically stable at about 16.3%. We saw good margin expansion at the contribution margin level. Our service margins expanded by three points. The headwind really in NBCU, as Keith will cover in a minute, come fundamentally from impairments. We had very aggressive base cost reduction. We are on track for a 10% base cost reduction for the year. Our second quarter base cost reduction was 14%. We see a lot of this momentum carrying forward into the future.

Lastly on restructuring we have done about $5 billion in restructuring since 2007. We are evaluating another $2 billion of restructuring with about a 2-year payback. These are more structural and focused. Again, we think the more restructuring we can do this year positions 2010 for improved outlook for earnings and beyond. So that is really what the goal is, to continue to take costs out of GE.

Lastly, cash has been a very strong story in the quarter. We generated $4.3 billion of cash in the quarter. As you all know the GECS dividend is zero for this year. Our working capital was reduced by $2.3 billion, more than offsetting the reduction in progress payments. Historically we generate about 40% of our cash in the first half of the year so at $7 billion it puts us well on our way to the $14-16 billion goal for industrial CFOA for the year.

We have about consolidated cash of $52 billion at GE and an additional $5 billion in the quarter and with the dividend reduced from $6.7 to $2.3 billion starting in the second half. That generates really surplus cash in the second half. We will save $13 billion in cash in 2009 and 2010. This is a great story and again the team is executing well and I would say again we are ahead of plan here with very solid prospects for the rest of the year.

So now let me turn it over to Keith to take you through the business and the business performance.

Keith Sherin

Thanks a lot. I am going to start with a summary of the second quarter. On the left side is the summary of continuing operations. Revenues of $39.1 billion were down 17%. They were down 12% X FX. I know there has been some discussion on our revenue number. We are not giving guidance on revenue. We haven't given any. The revenues were right in line with our Q2 expectations as we went through the quarter.

Industrial sales of $26 billion were down 7%. Financial services revenue of $13 billion were down 29%. We earned $2.9 billion net income during the quarter which was down 47%. Earnings per share we earned $0.26 and that includes the cost of the preferred dividend of $75 million. As Jeff covered, the total cash flow from operating activities was $7.1 billion which was a great result for our first half.

For tax rates, the consolidated tax rate for the quarter is 7%. This rate is down from 2008 due to significantly reduced pre-tax income and as you know the lower pre-tax income is principally driven by the GECS loss provisions. For GE the second quarter rate of 26% was flat with last year. For GE Capital because there is a large tax benefit and a pre-tax loss we are dividing a negative by a negative and we end up with a very high positive rate for the quarter. There were no significant

one-time tax items in the second quarter as we had in the first quarter.

On the right side are the segment results. Our infrastructure businesses had $3.6 billion of segment profit. That was flat with last year. NBC was down 41%. I will cover the details of that in a few pages. GE Capital and Finance earned $590 million including $149 million pre-tax income which was a good result for the quarter. C&I had $111 million segment profit, also a pretty good result for them.

So I will cover the businesses over the next several pages. Before I get into the specific business results I wanted to do a summary of the second quarter items that impacted the quarter. First, we had a transaction gain of $200 million benefit from a gain in GE Capital. We acquired a controlling interest in BAC which is a leading Central American bank where we already owned 49% of that. That change in control resulted in a fair market value gain that was reported in capital finance.

Second, we continued to fund restructuring projects to lower our future costs. We are taking out a lot of costs in the company as Jeff showed you on the base cost improvements. We had $0.03 of after tax charges in the quarter. They were reported at corporate and the reductions were aligned by business. I thought it would be helpful to just give you where the cost out activities were. Tech infrastructure had $77 million; Capital Finance had $74 million; C&I had $37 million; energy and infrastructure had $24 million; NBCU had $8 million and the balance was in corporate.

Third, we had $400 million of after tax marks and impairments which included several items. I have listed the biggest items on the right side. The largest negative items were $110 million write down of our position in Cosmos Bank in Taiwan. We had $96 million of commercial real estate equity impairments. We had an $85 million Treasury negative mark as our credit spreads improved in the second quarter and we had a $56 million write down of our after tax remaining on stake that NBCU held in Ion. We wrote off the rest of the stake 100% written off now. Those were partially offset by a positive mark of $139 million of our stake in Genpact.

We continue restructuring. As Jeff showed you we are going to continue to do restructuring in the second half and in 2010. In the quarter the restructuring more than offset the gains that we had which were principally the stock gain in GE Capital.

I will start with a few pages on Capital Finance. You should be aware we have a web cast scheduled for Tuesday, July 28th from 8:30-10:30 a.m. and we are going to give you a much more detailed update on GE Capital. For the quarter, Mike Neill and the team earned $590 million. That was down 80% from last year but we think it was a solid quarter given this environment.

Revenues of $12.8 billion were down 29%. The revenue decline was driven by lower assets, that is 12 points, so as we shrink GE Capital that is having an impact on the top line. We deconsolidated Penske, that was about six points and foreign exchange with the stronger dollar hurt us about seven points. Assets of $557 billion were down 11%. Year-over-year assets are down $71 billion and they are down 5% X foreign exchange. If you just look in the second quarter assets are down about $10 billion X exchange so we continue to make progress with collections exceeding originations.

The business results are in the bottom left. Let me start with consumer. Consumer you can see had segment profit of $243 million. That was down 77% from last year. The decline in earnings was driven by higher credit costs of $660 million and $200 million of lower tax benefits partially offset by the back gain and the Cosmos write off which I covered on the previous page.

That is a consistent theme of the higher credit costs throughout each of these businesses as we go through the individual segments. In terms of the specific consumer business, I don’t have these numbers on the page but I will cover three pieces; one, the U.S. consumer; two, U.K. home lending and then three, our global bank. U.S. consumer had a very strong second quarter. The U.S. consumer business earned $153 million positive in the quarter. That was still down $88 million from last year and that was driven by higher credit costs of $190 million partially offset by lower operating costs in the business.

The U.S. consumer losses and impairments are trending below the outlook case we showed you in the March GE Capital meeting. So a very good performance in U.S. consumer.

U.K. home lending had a loss of $155 million in the quarter. That is driven by higher credit costs of $293 million. We increased our reserves as a reflection of the higher delinquencies that I am going to cover in a few pages. If you look at the total non-U.S. mortgage losses for us globally, those are trending slightly below the Fed base case and there have been some recent positive signs in the U.K. housing market lately but the U.K. book is the one out of the global mortgages that remains under pressure for us.

Our banks made $251 million of net income in the quarter. That was down 48% again driven principally by credit costs up $190 million and if you look at the banking businesses the losses and impairments are trending slightly above the Fed base case that we showed you in March.

Moving to commercial real estate you can see the business had a loss of $237 million in the quarter, down from almost $500 million of earnings last year. The decline is driven by $275 million of higher credit costs and impairments and $380 million of lower gains. We did sell some properties in the second quarter. For the quarter we sold 49 properties for $245 million with a

small gain of $23 million. We also increased our reserves by $175 million in real estate. That is a reflection of the higher delinquencies and non-earnings we are seeing. For real estate our reserves and credit costs and impairments if you compare to the outlined cases we did in March they are running below the Fed base case but we are still very cautious obviously about the real estate outlook.

For commercial lending and leasing, the business earned $233 million in the quarter. That is down 74%. Again, the earnings decline was driven by higher credit costs of about $300 million and then lower core earnings and assets were down about 14%. In terms of the loss outlook for CLL it is trending to just slightly above the Fed base case. For the verticals you can see GECAS had another solid quarter earnings of $286 million up 3%. We ended the quarter with only two aircraft on the ground.

Energy and financial services earnings of $65 million were down 60% driven by $100 million of lower gains in the quarter. So the portfolio quality is good there with flat non-earnings.

If you look overall, the summary for overall losses and impairments for GE Capital through the first half, we are running just slightly below the Fed base case that we outlined in March. We are also running ahead of our overall cost out projections. For the year we expect cost savings to be more than $3 billion that we said we would have in the first quarter so the team is doing a really good job of controlling the costs.

Next I am going to turn it over to Brackett Denniston, our Senior Vice President and General Counsel to talk about financial services regulatory reform.

Brackett Denniston

Thanks Keith. Good morning. As many of you know the Treasury issued a White Paper about a month ago which outlines a sweeping proposal for financial services reform. It is probably the most sweeping proposal in U.S. financial services history. It's main features as many of you know are it designates the Federal Reserve Board as a systemic regulator including what the paper calls tier one financial companies. It will be advised in that capacity by a council of regulators, the bank regulators, securities regulators and others.

It includes consolidation of the banking regulators, the Office of Thrift Supervision and Comptroller of Currency but not consolidation of other agencies like the SEC and CFTC. The connection with the consolidation of banking regulators it calls for the conversion of thrifts and ILC's to national banks regulated by that National Bank supervisor. It has market reform over things like securitization and credit performance swaps. It includes resolution authority over big financial institutions, a bankruptcy like process run by the FDIC and it has very broad consumer reform regulations proposed in it including a Consumer Financial Products Commission.

Now one of the dozens of proposals in the White Paper is one that would require separating existing financial from non-financial companies whether they be tier one financial companies, however that ends up being fleshed out, ILC's or thrifts and there is a five year transition period. We are quite clearly opposed, as we have said publicly to this proposal. These structures were certainly not a cause of the crisis and a proposal would also unnecessarily affect important sources of lending at a time when the country needs lending.

In the past these existing structures have been traditionally handled by grandfathering them. We have talked to a number of people in Congress and we have heard considerable skepticism about many of the features of the White Paper but particularly on this aspect of the White Paper and we have also heard considerable support for the idea of not breaking up the existing structures with grandfathering.

The proposal was of course just the beginning and what will emerge from Congress will be quite different from what is proposed as is often the case. Congress will take over now and it will be a long and complex process probably lasting into 2010. At the same time I will make two quick additional points.

First, we are supportive of a systemic regulation and more regulation is certainly something we are prepared for. Second, nothing in the proposal changes our moving forward with a smaller, more focused GE Capital.

So as I said the proposal is still in the early stages and we are advocating very intensively for our point of view.

I am now going to turn it back over to Keith.

Keith Sherin

Thanks Brackett. I am going to cover a few more pages about GE Capital volume, asset quality and reserve levels and then wrap it up by going into the industrial businesses. The first page is about how important GE capital is as a source of liquidity for U.S. businesses and consumers. If you look at the first half of 2009, $69 billion of volumes and these have been at attractive returns for us. The financings are critical to our customers as we continue to support them through the downturn.

More importantly, if you look all the way back since January 2008 we have extended $155 billion in new financings to our commercial customers and $127 billion of credit to over 50 million consumers. Importantly we are not just supporting existing customers but new customers as well. In the first half of this year we added 16,000 new commercial customers and now support 23,000 new small businesses through our retail program.

We have broad reach and provide a lot of funding through a lot of capital that funds a lot of mid-market and small and medium sized businesses in this country. Lastly, we have maintained our leading position in larger key markets where we have deep domain. We are supporting virtually every U.S. airline and we have been maintaining our leadership possession in [debt earned possession], bankruptcy financing, healthcare financing and energy infrastructure financing. So still a lot of lending activity going on and we are providing a lot of capital to the markets especially in the U.S.

Next is an update on our delinquencies and non-earnings. On the left side is the commercial equipment finance data. You can see the 30 plus day delinquencies for equipment are down 6 basis points in Q2 versus Q1. This is a positive signal obviously for the commercial book. That was driven by a decline in delinquencies in the Americas, where 30 plus went from 2.81% to 2.45%. We are very interested in watching this trend and seeing how this develops as we go through the year.

That was partially offset by we had some increased delinquencies in our Asia and European equipment books. We continue to see pressure on non-earnings. We are up 18 basis points from the first quarter but again the pace of that growth has also leveled off a bit and it is driven by senior secured loans where we are well collateralized.

In terms of real estate which is not in the delinquency and non-earner for the equipment bar up above, the line up above, delinquencies increased up to 4% in the real estate book and non-earnings are up to 2.9%. You can see we continue to see pressure in the commercial real estate book. Finally for the verticals the delinquency and non-earnings are basically stable at 2.1 which continues to perform very well.

On the right side is the consumer data. This is really developing into two different categories by type of exposure. We broke out mortgage, global mortgage and non-mortgage because the loss dynamics are so different. You can see the improvements in the non-mortgage delinquencies as delinquency went from 6.02 in the first quarter down to 5.73 in the second quarter. That is really driven by North America.

The North American delinquencies are down 14 basis points to 6.96%. We are seeing better entry rate into delinquency. It is the lowest we have seen. We are seeing improved late stage collection effectiveness. The non-earnings balance was flat from the prior quarter and the reason the rate is up a little bit because the balance is down. As a percentage a little higher but we are getting the benefit of all of the underwriting actions that we took last year as well as some seasonality benefits.

The second category here you look at are the global mortgage assets. We continue to see growth in 30 plus delinquencies and non-earnings. The U.K. mortgage book drives most of the changes. I'm going to cover our reserves versus non-earnings in a minute. Overall, in a pretty tough environment we are seeing some leveling off in both the equipment and the U.S. consumer delinquencies and we are going to be monitoring those trends through the third quarter to see if we can really see they are really solid trends here as we go forward. Some positive spots in the book.

Next is an update on reserve coverage. We had a very good quarter for reserve strengthening. Our provision for losses was $2.8 billion for the quarter. Write off's were up $300 million to $1.9 billion. We still added $900 million for loss reserves. So a 50% increase in provisions versus the write off's. We increased our reserves in both the commercial and the consumer book. Reserves increased by $500 million in the commercial book, increasing our coverage rate to 1.13%. We increased our CLO reserves by $350 million and we increased our real estate reserves by $175 million Q2 versus Q1.

If you look at the consumer, we increased reserves by $400 million and you can see the consumer coverage rate increased for both U.S. retail and non-U.S. mortgage. Overall coverage was $6.6 billion of allowance was up 22 basis points versus the first quarter, up 74 basis points versus a year ago and we are well on track to get to the 2% plus coverage by year end.

Next is an update on how we think about the non-earning assets in our reserve coverage. These are basically the same charts that Jeff covered during the March 19th meeting. I showed you these charts for Q1 and now we have updated the numbers through Q2. The left side is commercial. Non-earnings ended the quarter at $6.4 billion. It is up $1.9 billion from Q1. It represents 2.9% of our financing receivables. The bars show the benefit of being a senior secured lender. We expect $1.9 billion of the non-earnings to have 100% recovery. We have another $1.2 billion in some type of workout where we expect full recovery. We will have a renegotiation or some changes to the documents and terms.

Then we have another $1.9 billion where we are protected by the collateral value. So a significant amount of work. Our risk teams are working on it to make sure they work through this loan book. At the end of the day that leaves you with what we think of as $1.4 billion of estimated loss exposure today and you can see we have 173% coverage against that with our reserves.

On the right side of the consumer non-earnings of $6.6 billion, they were up $1.1 billion over Q1 and represent about 4.7% of the financing receivables. The consumer dynamics as I said are very different between the mortgage and non-mortgage

assets so the green bar represents our non-mortgage non-earnings, principally the U.S. retail business, the credit card business and retail sales finance. We have $1.7 billion of non-earnings in that book and we have $3.3 billion of reserves against it, 189% coverage.

The remainder of the non-earnings of the global mortgage book we expect $1.5 billion of that to cure. With our underwriting positions we expect to recover $2.9 billion of exposure based on our loan to value position. Remember we underwrite these at about 70-75% loan to value. Today they are at about 85% loan to value as house prices have declined globally. That gives us a lot of recovery value. We have some mortgage insurance we expect to recover on leaving us with an expected estimated loss today of about $500 million and 173% coverage on that.

We believe we are appropriately reserved for non-earning loss exposure and again we will cover more of this in detail on the 28th meeting.

So let me wrap up GE Capital with a recap of where we stand through the first half. This framework is the stress case outline that we gave you in the March 19th meeting. We are giving you an update now on each of our major businesses, where they stand relative to the stress case. Some are higher or lower than the Fed based case in terms of where we are going on credit costs but overall we are trending to slightly below the estimated Fed base case for 2009 on losses and impairments.

More importantly we have completed a number of significant actions that we said we were going to do. We are dealing with a tough loss environment. We have strengthened our reserves while we have remained profitable. We have injected capital and strengthened our capital ratios. We have dramatically improved our liquidity profile with commercial paper down and cash balances up. We completed our 2009 long-term funding. We have already pre-funded over 30% of our 2010 needs. As Jeff said, our plan is to complete the 2010 funding before year end.

For 2009 we issued $9 billion in non-guaranteed debt. That is more than any issuer and we are shrinking our balance sheet while we are still providing a lot of credit to consumers and businesses. Finally, we have been transparent. We are going to cover more detail on GE Capital in the next update on the 28th and continue that trend.

So next let me turn to the industrial businesses. I will start with NBC. Jeff and the team continue to operate in a very challenging environment. For the quarter revenues of $3.6 million were down 8%. Segment profit of $539 million was down 41%. I think the first thing to point out is the overall performance is not as negative as it looks. I tried to highlight that with the numbers on the right side.

$200 million of the decline year-over-year was driven by two items. First there was no repeat of the gain we had last year from the sale of Sundance. That was about $113 million benefit in 2008. Second, we wrote off the balance of our investment in Ion which was about $95 million this year. Adjusting for those two items NBC was down about 24% for the quarter.

If you look at operations as we go around the four different numbers on the page here, cable continues to deliver strong results. Revenue of $1.2 million was up 3%. Op profit of $595 million was up 7%. USA remains number one for the twelfth consecutive quarter. Oxygen had a good quarter. Bravo had a good quarter. The cable news channels had a very good quarter. MSNBC beat CNN in prime ages 25-54 and total viewers for the full quarter for the first time ever and their op profit was up 8%. CNBC remains the clear leader in business news and op profit was up 7%.

Broadcast had a tougher quarter. Revenues of $1.4 million were down 9%. Op profit was down about $100 million and that was driven by lower revenues on House versus last year and higher investments made in new programming plus the local media continues to be down year-over-year.

We are very pleased with the transitions with Jimmy Fallon and Conan. They have been better and very successful. The new development that we have done for the fall shows have received very positive feedback from advertisers and the up front is very slow. I think everybody knows that. Basically we are planning on retaining more inventory as we go into the 2010 season.

Film did have a tough quarter. Revenues of $915 million were flat and op profit was down about $80 million. The main impact here was driven by fewer significant film releases to DVD year-over-year versus second quarter last year. Then our second quarter movie performance was less than we expected. So that was down.

Parks actually had a good quarter. Parks were up 13% in op profit. They had good cost controls and they had some timing benefit from spring break going to the second quarter versus first quarter last year. Digital is a very good story. It continues to grow. Hulu was the number two video site behind YouTube and we are thrilled to have Disney joined Hulu as a media partner.

Finally as I mentioned we took a final write down on Ion which really impacted us. So if you go back to what we said in Q1 we showed the operational view of NBC was expected to be down about 15-25% for the year. In the second half we expect to have favorable comparisons from not having the Olympics costs in the third quarter plus other cost reduction activities that the team has taken on to provide more offset to the advertising market and some of the pressure from film.

Next is tech infrastructure. John Rice and the team delivered revenues of $10.6 billion, down 11%. Segment profit of $1.8 billion was also down 11%. You can see the key businesses on the bottom left and I will start with some details on aviation.

2Q orders were $4.2 billion for aviation, down 23%. The biggest drop was in major equipment obviously with orders of 1.7 down 44%. We had $1 billion of commercial engine orders, $700 million in military orders. The good news here is we still have a tremendous backlog. The major equipment backlog ended the quarter at $21.3 billion, up 5% versus last year and only down 1% from the first quarter.

Service orders were up 5% in total. Commercial spares of $20.4 million a day were up 10%. We had very strong contractual service sales from both Southwest and US Airways partially offset by some lower overhauls on CF6 cargo engines. None of the $3 billion engine or $5 billion service wins that were announced at the Paris Air Show have flown into orders yet, as Jeff mentioned.

For the quarter revenue was down 6%. We shipped 472 commercial engines which was down 19%. That was partially offset by 239 military engines which were up 49%. Service revenue overall was down 1% reflecting the impact of higher contractual services mostly offsetting the lower freight overhauls. Op profit was up 1% with 1.4 points of margin growth in the business driven by services up 13%. We also had $79 million last year of revenue share benefits that didn’t repeat and without that the op profit for the entire segment would have been up 11%.

For healthcare, reported orders of $4 billion were down 11%. Down 7% organically. They were impacted by the stronger dollar. Equipment orders were down 15%, five points of decline from the stronger dollar as well. The U.S. orders were down 13% and the non-U.S. orders were down 7% on an FX adjusted basis. The pressure was pretty much across most of the major product lines. CT, MR, X-ray, Clinical and MDX all down double digits.

We did see better orders performance from life sciences, up 4% FX adjusted. Surgery had very strong quarter up 37%. Service orders were up 2% on an FX adjusted basis. China was up 11% and India was up 19% so we see some strength around the globe but overall revenue for the business in total was down 9%. Equipment was down 15% in line with orders and services were down 6%. That would have been flat on an organic basis.

Op profit of $590 million was down 21%. We really were hit by the lower volume. We had some negative price of about 1% in the quarter and negative productivity and services op profit was up 2% in the quarter in that number. It is just a tough healthcare environment that the team is dealing with obviously.

If you look at transportation, second quarter orders of $600 million were down 50%. The equipment orders are just going to remain challenging as the North American railroads have significant over-capacity as Jeff mentioned. Service orders were also affected by that. They are down 38% driven by both tough comparisons from some good parts orders last year as well as the idle locomotives. Revenues down 11 driven by lower locomotive deliveries. We had 119 this year in the quarter versus 165 last year. Services revenues were down 6%. The team did a good job managing that. The op profit was down only 2% as we improved margin rate by two points, offsetting the lower volume with favorable price, more deflation and good productivity.

The entire tech infrastructure segment is executing pretty strong cost out, doing a lot of restructuring in a tough operating environment. Even with that tough environment the service op profit for the overall business was up 7% showing the strength of the services model there.

Next is energy. John Krenicki and the energy infrastructure team had another very strong quarter. Revenues of $9.6 million were down 1%. That is up 4% if you adjust for the impact of the FX in the quarter. Segment profit good leverage $1.8 billion, up 13%. If you look at energy, the orders of $6.5 billion were down 1/3 versus last year but basically flat with the first quarter. We had $1.2 billion of thermal orders. They were down 60%. We received orders for 26 gas turbines versus 58 last year in the second quarter and that included ten units for Iraq which totaled about $400 million. We still have 30 more units to book as orders for the Iraq order.

The thermal backlog is $7.1 billion, that is down 10% from the first quarter of 2008. Wind orders of $500 million were down 60% as well as customers basically are looking for the finalization on the stimulus terms and conditions which happened last week. I think that is going to be a positive as we move forward. There are a lot of wind commitments out there that need to be finalized. The wind backlog at $4.2 million is still strong.

Aero orders at $262 million were down 69% and again tough comparisons last year but definitely slower. Service orders were up 12% driven by energy services up 8 and wind, aero and nuclear in total up 21%.

For the quarter revenue in energy was down 1%, up 2% when you adjust for FX. Equipment was up 5% and services were down 6%. We shipped 42 gas turbines versus 44 last year but pricing was up 8%. We shipped 680 wind units versus 672 last year with pricing up 6%. Service revenues, as I said, were down 6%. Two things here. It was driven by tough comparisons in the power adjacencies business. That was up 23% last year and down this year and water services were down 18%.

If you look at the core energy contract services business that performed very well with revenues up 11%. Op profit was up 15% and that was driven by strong pricing as I mentioned and good productivity and we had 2.8 points of margin growth in the energy business.

Oil and gas had another solid quarter with orders of $1.9 billion were down 10% but it is flat when you adjust for foreign exchange. We had $390 million of orders for natural gas and pressure equipment. That is up four times over the second quarter last year. We are seeing a lot more activity in the natural gas area. That partially offset the low orders that we are going to see in pipeline and refinery markets.

Equipment backlog ended the quarter at $6.5 billion. That is up $170 million versus first quarter so we are still growing the backlog in gas. Service orders were down 6% FX adjusted driven by tougher comparisons from last year in both parts and upgrades.

For the quarter the revenue was up three. That was strong volume growth in the petrochemical and refinery equipment segment. Service revenues were down six but up 5% if you look at the FX flat year-over-year. Op profit up 11, great volume and great productivity partially offset by the negative foreign exchange impacting the business.

Overall another great quarter for the energy infrastructure team. If you look, just another good service story. Services revenues were down a little bit in the quarter and op profit was up 3%. The service story really plays out in both the tech infrastructure and the energy infrastructure segments.

Let me turn it back to Jeff.

Jeff Immelt

Great Keith. Thanks. I just want to wrap up with two charts. One just kind of recaptures the company total year framework. When I look at energy infrastructure, technology infrastructure and NBCU, take a look at the second half and all the market dynamics we see, we see these as earnings being about flat for the total year 2009. I think last December we gave a range of zero to five. The markets are tougher but I think the teams are executing very well in this environment.

We see about flat earnings year-over-year. Capital Finance profitable in Q1 and Q2. Keith kind of outlined where we stand versus the various credit cost cases and we have got, I would say, building confidence in Capital Finance and from a corporate standpoint C&I is actually performing better than we thought and seeing pretty good momentum into the second half.

We will continue restructuring within the context of the framework but the team is really executing pretty well in this environment. Then looking forward I think we see more of the same. I think we see lower equipment sales but very solid service positions with very high margins. Continue to execute on cost out and increasing margins and we think we will see more benefit from the global stimulus as we look at the second half of the year.

We will continue to be in a tough credit loss environment but we will have a profitable GE Capital and the funding is solid and originations are strong. C&I is better and more restructuring.

I think the combination of services, productivity, margins, strengthening GE Capital, this I think, is a good context for GE as we look at the second half of the year and into 2010. Just to wrap up, we continue to build a strong company for the future. If you look at what we have done in the last three months we have significant strengthened GE Capital. Our liquidity is in great shape. Funding is in great shape.

We have strengthened the capital ratios. We have increased reserves. We are generating profitable business. We are able to play offense. We are really committed to GE Capital. All the things Brackett said, we are strongly committed to our point of view and to a smaller but still strong GE Capital business. We are running GE with intensity both on a productivity and cash basis. I think the cash story is very strong and the margins are still at 16.4%, very high.

Investing in technology and service. We have a service backlog of $122 billion. We have launched new products like batteries. Our technology budget is up. We are winning globally when you look at China, India and the Middle East. We are well positioned in some of the big themes that I think will mean we are working on the right things vis a vie stimulus. I think the company is stronger and we are well positioned for this challenging environment.

Trevor let me turn it back to you.

Trevor Schauenberg

Thanks Jeff. Operator, let’s open it up to questions now.

Question-and-Answer Session

Operator

(Operator Instructions) The first question comes from the line of Terry Darling - Goldman Sachs.

Terry Darling - Goldman Sachs

You had mentioned 2010 equipment revenues may be down 10-15% if I got that correct. I am wondering if you might make a comment on how you would feel about the flow through on that as well as any thoughts on the services side of the business at this point.

Jeff Immelt

It is still early days to think about 2010 but again as we said on the page, 75% of the earnings plus and that is of all industrial earnings come from services. So when I look at services we see backlog building. We see good customer usage rates. Things like low natural gas prices mean people are working their gas turbines harder. Good productivity and things like that.

Then I think when you look at the equipment side, the combination of relatively low margins on the original equipment sales, very aggressive restructuring we are doing plus good margin momentum, we think it is a good one/two punch. Good service growth. Good service revenue. Good productivity.

Terry Darling - Goldman Sachs

It sounds like on the services side in 2010 there is nothing you see that would be obvious at this point to drive that business from a profit perspective when you layer in the restructuring efforts you have to drive that down dramatically. Based on what you see right now?

Jeff Immelt

We are kind of out of the guidance business when I think about 2010. I sit here and say we have $122 billion of backlog. We have got the most energy efficient fleet in aircraft engines and gas turbines. We are as well positioned as you can be in the type of environment you see today really. Great visibility. The service margins were up three points in the second quarter so we are seeing the productivity fall through. We are seeing the restructuring fall through. The assets we have are being worked pretty hard.

Terry Darling - Goldman Sachs

On second half tax rate industrial can you help us with that? That 26% rate, what we ought to be thinking?

Keith Sherin

If you look at the way the accounting rules work on tax we are supposed to be booking to what we estimate our total year rate to be. If you look at our 26% for the half that is a pretty good estimate for what we think we will have for the year for the official rate.

Terry Darling - Goldman Sachs

I think you called that 29% last quarter. Is that just mix geographically?

Keith Sherin

We have some lower pre-tax earnings so that does in some way affect the rate. We are getting a little less benefit from some of our global funding structures because of interest rates and FX. Last quarter we had a little bit of a higher rate in industrial if you remember because the percentage of GE Capital was so low in the first quarter. That raised it versus what we thought the annual estimate was going to be. At the half that is a better estimate.

Operator

The next question comes from Scott Davis - Morgan Stanley.

Scott Davis - Morgan Stanley

When you have an order book that softens like this what impact do you start to see on price?

Jeff Immelt

If you look right now we have got a really strong story in the order book in the backlog on pricing. If you look in the quarter

energy business had 5% price up, oil and gas had 1% price up, [inaudible] was up 3, healthcare was down 1 consistent with what they have been, actually lower than what they have been the last few years. Overall for the company we had 1.9% price up. So you are seeing a very strong backlog that we are working off of.

In terms of orders as we go forward, for energy in the quarter they were up 2.9%. Oil and gas was down about 1%. Engines was up 10%. Healthcare had pressure about 1-2%. So I don't see anything abnormal yet. I think you have to worry about supply and demand dynamics as you go forward but right now we have got a very healthy backlog and we are protecting that. The orders in the quarter were pretty good.

Scott Davis - Morgan Stanley

I will ask kind of a similar question for GE Capital. You talk about higher credit costs but obviously your book I think about one-third of your book reprices every year. What is the typical lag I guess between your credit costs going up and your pricing being able to follow and strengthen to match that?

Jeff Immelt

Our pricing right now is already up. Everything we did in the quarter we are getting 2.5 to 3 return on investments sort of margins on the volume that we did. We did about in total $35 billion of unbooked volume in the quarter at about a three ROI. One-third of the book turning used to be at higher volumes than we are doing. I think you are going to deal a little bit longer timeframe before you get the book to turn based on the fact that the volumes are down about 40% year-over-year.

The margins that we are getting today with the estimates of both our funding costs and our credit costs are extremely strong and that is because the cost of capital is going up for everybody and people need capital and we are providing it.

Operator

The next question comes from Nigel Coe - Deutsche Bank Securities.

Nigel Coe - Deutsche Bank Securities

You covered a lot of ground in the slides. One thing you didn't mention was CIT. Obvious question, are you seeing any early impacts from the dislocation of CIT?

Jeff Immelt

It is a little early to have any real impact on that. We will have to wait and see. We don't compete directly with them in many places. Then there are some opportunity areas where we do have overlap. We will have to wait and see how that plays out. I think it is a little premature to have any type of impact off of whatever they ultimately find as a resolution.

Nigel Coe - Deutsche Bank Securities

Secondly, within GE Capital you made a positive pre-tax income at GECC and capital finance, pre-tax loss at GECS. The gap between the two was sort of wider than I expected. Is there anything to think about in terms of why there is about a $4 million gap between Capital Finance pre-tax and GECC?

Jeff Immelt

The biggest thing in the costs including Treasury, those were at a pretty normal run rate for the quarter. We did have some of the costs, as I showed you on the impairments were on the Treasury line in the quarter.

Nigel Coe - Deutsche Bank Securities

Interest expense within GE Capital is a big drop quarter-over-quarter. I think around $4.5 million. Is this the low point for interest expense or do you think it could actually go a little bit lower from here?

Jeff Immelt

I'm sorry, repeat that?

Nigel Coe - Deutsche Bank Securities

The interest expense for GE Capital there has been a big drop quarter-over-quarter. I think it went from 5.1 to 4.5? Is that do you think as low as it goes within GE Cap or do you think this still could go lower?

Jeff Immelt

We will have to see what happens to the global benchmark rates obviously. We have had a decline in obviously all the short-term benchmark rates and that has been a driver for a benefit as well as the lower debt balances we have. You tell me what the benchmark rates are going to be. So far we have had a very good experience here in terms of funding and interest costs have been favorable as you said. The other thing I would say in the Cap Core there is that $77 million as I mentioned of restructuring and the restructuring nets in the cap core line as well. That may help.

Operator

The next question comes from Stephen Tusa - J.P. Morgan.

Stephen Tusa - J.P. Morgan

Just getting into the zero flattish growth for the year now instead of zero to five in the framework. I think if I am adding the segments up right you were down about 5% in the first half. Can you just talk about the dynamics without giving specific guidance maybe what gets better in the back half of the year for these area segments?

Jeff Immelt

Why don't I start and then Keith can kick in. I would say energy infrastructure both from a backlog and services standpoint continues to be very strong. Technology infrastructure again has good productivity and sustained service growth in the second half. NBC Universal has good comparisons and really we think the second half of NBC Universal is going to be significantly higher than the first half on a run rate. I think Keith went through some of the impairments. I think an improvement in NBC, energy if anything gets better during the year and technology is kind of more or less around the zero mark in that range.

Keith Sherin

I agree. I think NBC is a big number, right. We had over $200 million of impairments in the first half. We have the $150 million loss from the Olympics last year to compare to. I think if you look at those dynamics that is a big factor. I think services is the other factor. If you look first half to second half we do continue to see positive outlook for services as we get into the balance of the year. I think the other thing I would mention here is we have also included in that zero, we have included a re-look at the equipment levels that we are going to have and that is factored in here.

In January I kind of gave an outlook for gas turbines, wind turbines, commercial engines, military engines and locomotives. We have included in this update that Jeff covered a view on those five categories and I think it might be helpful to put those out there.

Gas turbines in January we said we would have about 185 for the year. Right now the July estimate has about 150-160 for the year. Some of that is Iraq has pushed into 2010. Wind turbines we said we would have about 2,800 units for the year. We are around 2,700 or 2,800 units, pretty consistent there. Commercial engines we had originally 2,200 engines in the year. Now we are down to 1,930 as the air framers have reduced their production schedules even below what we had at plan. Military engines are on track, 925 to 925. Locomotives went from about 600 down to about 500.

I think included in that zero we are factoring in the fact that we think the equipment is going to be a little less than we had as the original estimate for the year and that is because of the strength of services as we go forward.

Stephen Tusa - J.P. Morgan

On energy and the price/cost gap, do you expect it was again a nice number this quarter, do you expect that 450 to get bigger over the next couple of quarters or have we kind of peaked on that, going back to Scott's question, how long can you hold onto that price/cost gap?

Jeff Immelt

I think our expectation is that as time goes on there is going to be pricing pressure. It is hard to predict right now. We are protected by great backlog but when we look at the raw material productivity we are getting and our cost out that our sourcing people are getting it is going to be substantially better in 2010 than it is in 2009.

We are able to kind of see that. We have got really great cost down programs going. The other thing I would say in addition to what Keith provided, I think in this environment only have $100 million of cancellations in a quarter is pretty good. I think that is a real plus for investors as well.

Operator

The next question comes from Robert Cornell - Barclays Capital.

Robert Cornell - Barclays Capital

The commercial delinquencies going down was a surprise. Maybe you could go back. I know you discussed it being Americas driven, but it seems counter intuitive given the trouble that CIT is and your commercial delinquencies are actually going down. Maybe you could just give us some more visibility into why that is the case?

Jeff Immelt

I think we have seen quite a bit of activity in that portfolio from customers delaying payments already for the last 9-12 months. I think if you are going to have an indication of how the commercial book is performing on the mid market business in the Americas that has already been impacted by the economic outlook we have had and we are seeing those accounts basically already go through the first wave of what we would expect to see in terms of credit indicators; 30 day delinquency, 90 day delinquency and then non-earnings.

Our credit guys are cautious about it but I think it is a good sign that we have kind of leveled off here in the quarter and now we have to see if that trend continues as we go forward. We have real terms and conditions and rights. We don't have covenant light loans. We don't have no-covenant, no-doc loans and as a result people have to pay us. We are experiencing the delinquency in line with the economic environment our customers are feeling.

I don't know how it compares to CIT but for us I think this is a good sign on the book and we are going to have to see how it affects us going into the second half. We have shifted so much of our front-end activity into managing accounts, managing and making sure we get our senior secured position back and I think that helps us to manage the delinquency once we get in here. I think it is a positive sign and we will have to see how it comes out in the second half.

Robert Cornell - Barclays Capital

You certainly hear a lot of anecdotes about GE out there hitting hard.

Jeff Immelt

We are a senior secured lender. That is how we run the business.

Keith Sherin

We are originating a lot of business out there right now.

Robert Cornell - Barclays Capital

Another point is you talked about funding outside FDIC. What are some of the indications of funding costs on that non-FDIC funding you are looking at?

Jeff Immelt

You see our cash bond spreads every day. They have come down since the first quarter clearly. We think they are at levels where if you just do our cash bond spreads at five years at a little over 5%. We can borrow at that rate for five years and lend it to customers who need capital at an attractive rate. We are trying to balance how much additional non-guaranteed debt to do and how quickly do you do it when you already have $50 billion of cash. We have got the cash there for the insurance. We don't need to do any but we are committed to funding 2010 before we get out of 2009. We are just going to do it pieces at a time in markets where there is acceptable demand and we are not going to be disruptive in the credit markets as we go forward and do that.

Robert Cornell - Barclays Capital

The commentators on CNBC this morning noting the evolution of the commercial real estate book, both equity and the loan book, I am sure you will touch on that in some detail on the 28th but how do you see those positions evolving and what level of impairments and credit losses are we likely to see? Just looking out over the next 3 years or so. How is that going to evolve?

Jeff Immelt

We are going to grind our way through it. We showed it to you in March how we feel about our loan book underwritten at conservative loan to values. Making sure that we understand the supply and demand dynamics for every market we are in. We have been very careful and diversified on our equity book but obviously that is under pressure based on how the market is performing and what people has as opportunities to put new money to work at.

Again, not a big supply and demand overhang. We are going to grind our way through the real estate book. We have Ron and

his team working on making sure every property that comes up for lease gets re-leased. Every negotiation point on a refinancing gets negotiated hard. Everything we can do to help them from a GE perspective we are doing and I think the team has done a very good job of working through it. It is a tough market. We are going to have an overhang from the equity book and things we bought in 2007 clearly. We are going to work our way through it over time.

I think you are going to have to basically, we said we have got a $4-5 billion embedded loss in that book and we are going to grind our way through that over the next couple of years. Now you get a little over $1 billion of that every year through depreciation. Our net operating income is pretty good at about $1.6 billion on that equity book. Our occupancy is good. The team is doing a good job of re-leasing everything that comes open. I think it is a grind it out. We have a lot of good people working on it. I think the team is doing a pretty good job in a tough environment and we are going to share a lot more details on the 28th.

Robert Cornell - Barclays Capital

What is the schedule of refi's on that book for the balance of the year? You have $5.4 billion for the whole year. Have you been through half of it or is it most in the second half?

Jeff Immelt

I don't know the exact number. We will definitely cover that on the 28th. We gave you an update on that in the first quarter. I don't have it with me right now.

Operator

The next question comes from Jason Feldman – UBS.

Jason Feldman - UBS

I know you talked for awhile now about shrinking the capital finance portfolio but at least sequentially the [FS] were up somewhat. Was that currency or more aggressive origination opportunistically or is there something else going on there?

Keith Sherin

It was all currency. On a reported basis, as you said, the assets were up 13. $25 billion of that quarter-over-quarter was driven by the dollar and the FX translation. So we are down 12-13 in the quarter on an originations less than collections basis.

Jason Feldman - UBS

There is a lot of data all at once, but if my math is right reserves as a percentage of non-earnings declined modestly despite the reserve build. Reserves as a percentage of non-earnings are about 50% down from about 57% last quarter. How should I think about that? Is there a change in the mix of where non-earnings are?

Keith Sherin

You have to separate out the global mortgage part. The global mortgage forecast a lower percent of reserves based on the fact that we are in senior secured positions in the properties and so as those go to non-earnings they get big numbers in non-earnings but really the loss percents are much lower than what we have across the rest of the consumer book for sure. Then probably comparable to the rest of the commercial book. So that is a mix effect. We will show you some more of that on the 28th as well.

Jason Feldman - UBS

Just to make sure that I get this. What you are basically saying is that the non-earnings growth comes from the mortgage side because the actual expected losses on those non-earnings are lower and you don't need the same comparable reserve build. Is that it?

Keith Sherin

Exactly. Remember we underwrite the properties at about 70% loan to value and when it goes non-earning the full value of the property goes in even though you have all of that asset behind your loan position.

Jason Feldman - UBS

Commercial lending and leasing. I am kind of trying to reconcile non-earnings which were up substantially this quarter while the equipment financing delinquencies actually were down. I know not all of the CLO is equipment financing but can you kind of

explain the dynamics there why we are seeing continued growth in the non-earnings with delinquencies that seem to be stabilizing? How should we think about that probably not just there but elsewhere?

Keith Sherin

Some of that actually is connected. As something goes out of financing receivables into non-earnings or goes into the non-earning category it is not in the delinquency category. Some of that is the book is already basically starting to season. You are dealing with a non-earning asset. You have to work your way through that in terms of getting your senior secured position recovered and it comes out of the 30 day delinquency measurement.

Jason Feldman - UBS

Do you view that as kind of a sign of stabilization?

Keith Sherin

I view it as a sign of maturation of the commercial book here in the U.S. I don't know if it is stable yet. I would like to see the third quarter. I can tell you that it is nice to have it at least flatten in the second quarter and I hope it is a sign of stabilization. A seasoning sign is the word I was looking for.

Operator

The next question comes from Jeff Sprague - Citigroup Investments.

Jeff Sprague - Citigroup Investments

On credit costs for the year, should we kind of expect we will be in the $10-10.5 billion range then based on kind of the run rate and what you said a little below the Fed base rate?

Keith Sherin

We are just taking where we are at the half and if you look at where we are at the half and double it for the year you end up with those numbers. Again, in all our indicators with all the ups and downs with some above Fed base and some below and especially the retail business, even below our op plan you get somewhere below the Fed base case if things continue as they are through the second half yes.

Jeff Sprague - Citigroup Investments

I was just wondering disc ops, did something else move into disc ops in GE Capital in the second quarter? The number was quite small in Q1.

Keith Sherin

Nothing else moved in there. There was a true up with the Lake disposition with [Shin Sei] in the quarter of right around $100 million related to the exit of our consumer business in Japan.

Jeff Sprague - Citigroup Investments

I wonder if I might just ask Brackett a question since we have him on the call. I would certainly agree with the notion that perhaps companies like GE had nothing to do with the core of the problem that happened which actually then makes the language of this thing actually quite interesting. I mean, a lot of people have surmised that it actually seems to actually target GE based on your size and other sorts of things. I just wonder your view on that and the strength of the administration's conviction that kind of the mingling of finance and industry is actually an underlying problem here.

Brackett Denniston

I think it is one of many proposals. I don't sense it is up at the top of their list. It is not something they talk a lot about publicly. But it is a debate that goes back about 30-40 years between banking regulators and other people. I think that is where that reasoning comes from. It is an old debate that usually gets resolved in the way I mentioned. It gets resolved by grandfathering. I don't think it is fundamental to any crisis prevention although you could make arguments that way. Existing structures have been well regulated by the kind of protections you have in law that strengthen modestly to address any kind of risks that are covered in the couple of paragraphs of the White Paper that touch on it.

Keith Sherin

I think the actual circumstances of what we have actually been through in the last nine months are completely the opposite.

Why is GE and GE Capital better than other financial institutions? We have been able to raise equity as a combined enterprise, we have been able to strengthen the balance sheet of GE Capital based on the strength of the GE business model and our cash flows. We had to cut our dividend that protects GE Capital going forward. The industrial combination with our financial services business has provided the strength for us to work our way through this crisis. I think that is a pretty strong proof statement in one of the toughest environments that any business model has ever gone through.

Jeff Immelt

As you can tell, we are extremely committed here. We are out originating new business. We are out providing liquidity. As we showed earlier, even in a tough environment this industrial company is going to generate between $14-16 billion of cash flow. All of that can be applied to strengthening GE Capital and doing more origination in the marketplace. We are very committed to this business model.

Brackett Denniston

I have to add one more thing. I don't think this thing was targeted as GE Capital. I think this was a broader conceptual kind of thing and so I don't buy into the notion that somehow this was targeting GE.

Jeff Sprague - Citigroup Investments

Could you give us what the industrial organic growth was in the quarter?

Keith Sherin

Revenue growth was down about 5.

Operator

The next question comes from John Inch - BAS-ML.

John Inch - BAS-ML

The equipment orders down over 40%. What was the organic result if you X out pricing and currency? In terms of the embedded down 10-15, do you presume that the down 40-ish reported number kind of continues or does that actually kind of get better because of other comps or stuff you are seeing?

Keith Sherin

FX was only about two points on that. It gets better because the second quarter was the second highest quarter ever and the second half you go down to the $13 billion sort of order numbers instead of the $14-15 billion order numbers we were comparing to. So I think just based on the fact the orders we have at the absolute level are so great you are going to see a little better comparison. We don't expect to be down 44 or 42% for the year. It is somewhere probably closer to the 25% kind of range.

Jeff Immelt

Even without the recession we would have had an unwind here. We billed $30 billion of backlog over four years. It is just a ton. This is really within our expectations. What I talked about in the equipment revenue and how to think about it going forward, using all of our analytics that seems pretty reasonable.

Keith Sherin

If you look at the absolute equipment order being down in the amount, first of all that is not what is going to turn into revenue. As Jeff said, you do the math on the backlog conversion and what you get in normal orders in the current year going into revenue. You could be down somewhere around 10-15%. We are giving you that framework in a non-guidance world. It is not going to be down 40%. On top of that you have got services the other side.

John Inch - BAS-ML

You are pretty optimistic on energy continuing yet the energy orders specifically are down. Is there something about the back half that allows your turbine business specifically to continue kind of the trend into next year or are there mix issues?

Jeff Immelt

What I would say is you have a very strong service momentum in the second half. I think that is a very good sign for the energy business. Big back logs, a big global footprint and I would say we have a very formal process in terms of how we book orders.

A lot of the wind commitments didn't turn into orders really because our customers were waiting to see how the eventual language worked on the production tax credit. That has now been clarified so we see a couple of big orders that are out there that will probably happen in the second half.

Keith Sherin

I think 100% of what we are talking about for 2009 is in the backlog today across these businesses that we covered with those updates I gave you. We will have to work our way through the second half and see what the equipment is for 2010 but that framework that Jeff talked about I think is pretty appropriate.

John Inch - BAS-ML

The $678 million of tax credits at GE Capital, how does that compare to the tax credits in the first quarter if you were to X out or however you want to look at it the reinvestment of earnings that you did in the first quarter?

Keith Sherin

It is pretty similar. The simple way to look at it is if you take the pre-tax loss of GECS and you tax effect it then you end up with about $400-500 million of tax benefit that we get every quarter from our global structure including the fact that GE pays GE Capital for its tax losses. You are talking about a $400-500 million a quarter run rate and that is very similar excluding that one-time reinvestment that we did or commitment to reinvesting overseas that we did in the first quarter.

John Inch - BAS-ML

Your deposit base of $36 billion. Is there anything going on there? A little bit of an update with respect to the GE swaps accounts or anything like that?

Keith Sherin

No there is nothing really. We have had a little bit slower growth in the quarter on the ILC Bank in Utah. So if you don't have the assets we don't raise the deposits. We have had good global growth and some good bank loan growth offsetting that.

Operator

The next question comes from Stephen Whittaker - Sanford Bernstein.

Stephen Whittaker - Sanford Bernstein

Just to follow-up on Jeff's question with Brackett on the White Paper proposal, I guess it is only one option in its early days but it did exclusively exclude grandfathering in one of the comments. What options have you thought about in some of the worser case scenarios to avoid a split? If in fact you did get named a bank holding company or however you sort of scenario planned this thing to mitigate any damage other than just fighting it.

Brackett Denniston

I think I talked earlier on about a number of things we are doing to protect ourselves. Getting smaller, more focused number one. Number two bulking up on regulation. I would say those are the two principal things. You talk about all of the other things we are doing right now around capital strengthening. Strengthening capital for a new regulated world, strengthening our liquidity profile. All of those things prepare you for whatever comes out of this White Paper.

Stephen Whittaker - Sanford Bernstein

On capital allocation, how are you thinking in light of current results and long-term dividends payout outlook? Is it going up to 50% or how are you thinking about that and over what timeframe?

Keith Sherin

We said when we made the decision to cut the dividend in the second half of this year we would have an assumption that we weren't going to rely on any capital out of GE Capital for the near-term. That assumption is still in play today. We will have to see how 2010 and 2011 look before we revisit that. We think we have a pretty good dividend yield on the dividend payout we have today based on our industrial earnings and our industrial cash flow relative to what is competitively available out there.

I think it is something we will look at as we get more clarity on 2010 and 2011. We have a pretty healthy dividend yield versus the dividend payout.

Jeff Immelt

The good news is that our CFOA is equal to or higher than it was when we had our December meeting. So it gives us just a lot of financial flexibility when we look at the second half of the year to make good choices for our investors. Our CFOA performance is very good.

Stephen Whittaker - Sanford Bernstein

As you mentioned in December are you still basically thinking in terms that you are out of the market for large M&A?

Jeff Immelt

I made two comments in December that I still think are true today. The first one is our priority right now is just to make sure that GE Capital is safe and secure and that we have the opportunity to play offense with GE Capital in the second half of the year. I think we can do that. The second comment I made is we just don't think there are a lot of big transactions that take place. I think what we have seen in the first half supports that.

Thanks everybody. Again, I think the key highlights are great service strength, tremendous work on productivity and strong cash flow. You have seen the framework for the second half of the year and we think the GE team is executing well in a tough environment.

Keith Sherin

We look forward to giving you a good update on GE Capital on the 28th and that should be another revisit of the deep dive we did in March on a more focused basis.

Trevor Schauenberg

Thank you Jeff, Keith and Brackett. Just a few housekeeping items. The replay will be available this afternoon. I would like to close by announcing three upcoming events for your calendars. First, we have a reminder that the GE Capital Investor Web Cast will be held on July 28th. Second, we will be also hosting an Investor Day at the Global Research Center on September 17th so please stay tuned. More details to come on that. Finally, our third quarter earnings call will be held on October 16th.

Information regarding all of these upcoming events will be available on our website shortly. For today, as always, Joanna and I will be available to take your questions. Thank you very much everyone.

Operator

Thank you for your participation. You may now disconnect.

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