PTC THERAPEUTICS, INC.
Form 10-Q
May 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-35969

PTC Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**04-3416587**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 Corporate Court **South Plainfield, NJ**	**07080**
(Address of principal executive offices)	(Zip Code)

(908) 222-7000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of May 5, 2014 there were 30,074,453 shares of Common Stock, $0.001 par value per share, outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, are forward-looking statements. The words anticipate , believe , estimate , expect , intend , may , plan , predict , project , target , potential , will , w continue , and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

The forward-looking statements in this Quarterly Report on Form 10-Q include, among other things, statements about:

- the timing and conduct of our clinical trials of ataluren for the treatment of Duchenne muscular dystrophy and cystic fibrosis caused by nonsense mutations, including statements regarding the timing of initiation and completion of the trials and the period during which the results of the trials will become available;

- the timing of and our ability to obtain marketing approval, including conditional approval in the European Union, of ataluren and our other product candidates, and the ability of ataluren and our other product candidates to meet existing or future regulatory standards;

- our expectations with respect to development and regulatory status of our program directed against spinal muscular atrophy in collaboration with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc., which we refer to collectively as Roche, and the Spinal Muscular Atrophy Foundation, or the SMA Foundation, and our estimates regarding future revenues from achievement of milestones in that program;

- the potential receipt of revenues from future sales of ataluren;

- our plans to pursue development of ataluren for additional indications other than Duchenne muscular dystrophy and cystic fibrosis caused by nonsense mutations;

- our plans to pursue research and development of other product candidates;

- the potential advantages of ataluren;

- the rate and degree of market acceptance and clinical utility of ataluren;
- our estimates regarding the potential market opportunity for ataluren;
- our sales, marketing and distribution capabilities and strategy;
- our ability to establish and maintain arrangements for manufacture of ataluren and our other product candidates;
- our intellectual property position;
- the impact of government laws and regulations;
- our competitive position; and
- our estimates regarding expenses, future revenues, capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in Part II, Item 1A. Risk Factors, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2013 completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.

In this this Quarterly Report on Form 10-Q, unless otherwise stated or the context otherwise requires, references to PTC , PTC Therapeutics , we , us , our and similar references refer to PTC Therapeutics, Inc. and, where appropriate, its subsidiary. The trademarks, trade names and service marks appearing in this this Quarterly Report on Form 10-Q are the property of their respective owners.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

PTC Therapeutics, Inc.

Balance sheets (unaudited)

In thousands (except per share data)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 115,855	$ 15,414
Marketable securities	130,730	127,053
Prepaid expenses and other current assets	1,957	1,599
Grant and collaboration receivables, net	838	958
Total current assets	249,380	145,024
Fixed assets, net	6,328	6,730
Deposits and other assets	132	149
Total assets	$ 255,840	$ 151,903
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 8,735	$ 12,207
Current portion of long-term debt	12	49
Deferred revenue	492	878
Total current liabilities	9,239	13,134
Other long-term liabilities	2,259	2,227
Total liabilities	11,498	15,361
Stockholders equity:		
Preferred stock, $0.001 par value. Undesignated 5,000,000 shares; issued and outstanding 0 shares at March 31, 2014 and December 31, 2013		
Common stock, $0.001 par value. Authorized 125,000,000 shares; issued and outstanding 29,325,997 shares at March 31, 2014. Authorized 125,000,000 shares; issued and outstanding 23,803,282 shares at December 31, 2013	30	24
Additional paid-in capital	587,128	465,246
Accumulated other comprehensive loss	80	70
Accumulated deficit	(342,896)	(328,798)
Total stockholders equity	244,342	136,542
Total liabilities and stockholders equity	$ 255,840	$ 151,903

See accompanying unaudited notes.

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PTC Therapeutics, Inc.

Statements of operations (unaudited)

In thousands (except per share data)

	Three Months Ended March 31,	
	2014	**2013**
Revenues:		
Collaboration revenue	$ 9,147	$ 6,072
Grant revenue	70	1,070
Total revenues	9,217	7,142
Operating expenses:		
Research and development	15,889	11,257
General and administrative	7,540	4,461
Total operating expenses	23,429	15,718
Loss from operations	(14,212)	(8,576)
Interest income (expense), net	171	(6,162)
Other (expense) income, net	(57)	54
Net loss	(14,098)	(14,684)
Deemed dividend		(18,249)
Gain on exchange of convertible preferred stock in connection with recapitalization		3,391
Net loss attributable to common stockholders	$ (14,098)	$ (29,542)
Weighted-average shares outstanding:		
Basic and diluted (in shares)	24,492,487	4,526
Net loss per share applicable to common stockholders basic and diluted (in dollars per share)	$ (0.58)	$ (6,527.30)

See accompanying unaudited notes.

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PTC Therapeutics, Inc.

Statements of comprehensive loss (unaudited)

In thousands

	Three Months Ended March 31,	
	2014	**2013**
Net loss	$ (14,098)	$ (14,684)
Other comprehensive loss:		
Unrealized gain on marketable securities	10	
Comprehensive loss	$ (14,088)	$ (14,684)

See accompanying unaudited notes.

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PTC Therapeutics, Inc.

Statements of cash flows (unaudited)

In thousands

	Three months ended March 31,	
	2014	**2013**
Cash flows from operating activities		
Net loss	$ (14,098)	$ (14,684)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	588	625
Change in valuation of warrant liability	55	(54)
Non-cash interest expense		6,023
Amortization of premiums on investments	414	
Share-based compensation expense	3,705	621
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(358)	(25)
Grant and collaboration receivables	120	68
Deposits and other assets	17	39
Accounts payable and accrued expenses	(3,472)	4,446
Other long-term liabilities	(23)	1
Deferred revenue	(386)	(4,907)
Net cash used in operating activities	(13,438)	(7,847)
Cash flows from investing activities		
Purchases of fixed assets	(186)	(21)
Purchases of marketable securities	(25,354)	
Maturities of marketable securities	21,273	
Net cash used in investing activities	(4,267)	(21)
Cash flows from financing activities		
Payments on long-term debt	(37)	(1,069)
Net proceeds from sale of Series Four convertible preferred stock		56,458
Net proceeds from secondary offering	118,183	
Net cash provided by financing activities	118,146	55,389
Net increase in cash and cash equivalents	100,441	47,521
Cash and cash equivalents, beginning of period	15,414	2,726
Cash and cash equivalents, end of period	$ 115,855	$ 50,247
Supplemental disclosure of cash information		
Cash paid for interest	$ 1	$ 162
Supplemental disclosures of non-cash information related to investing and financing activities		
Change in unrealized gain on marketable securities	$ 10	$
Change in carry value of preferred securities resulting from recapitalization	$	$ 3,391

See accompanying unaudited notes.

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PTC Therapeutics, Inc.

Notes to unaudited financial statements

March 31, 2014

In thousands (except per share data unless otherwise noted)

1. The Company

PTC Therapeutics, Inc. (the Company or PTC) was incorporated as a Delaware corporation on March 31, 1998. The Company is a biopharmaceutical company focused on the discovery and development of orally administered, proprietary small-molecule drugs that target post-transcriptional control processes.

The Company has devoted substantially all of its efforts to research and development, including clinical trials. The Company has not completed development of any drugs. The Company has not generated product revenue to date and is subject to a number of risks similar to those of other early stage companies, including dependence on key individuals, the difficulties inherent in the development of commercially usable products, the potential need to obtain additional capital necessary to fund the development of its products, and competition from other companies. As of March 31, 2014, the Company had an accumulated deficit of approximately $342.9 million. The Company has financed its operations to date primarily through a public offering in February 2014, its initial public offering in June 2013 (see note 6 below), private placements of its convertible preferred stock, collaborations, bank debt, convertible debt financings, grant funding and clinical trial support from governmental and philanthropic organizations and patient advocacy groups in the disease area addressed by the Company s product candidates. The Company believes that its existing cash, cash equivalents, and marketable securities provide for sufficient resources to fund its currently planned operations through 2016.

2. Summary of significant accounting policies

The Company s complete listing of significant accounting policies are described in note 2 of the notes to the Company s audited financial statements as of December 31, 2013 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 6, 2014 (2013 Form 10-K). There have been no changes to our accounting policies during the quarter.

Basis of Presentation

The accompanying unaudited financial information as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 has been prepared by the Company, without audit, pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These interim financial statements should be read in conjunction with the Company s audited financial statements as of December 31, 2013 and notes thereto included in the 2013 Form 10-K.

In the opinion of management, the unaudited financial information as of March 31, 2014 and for three months ended March 31, 2014 and 2013 reflects all adjustments, which are normal recurring adjustments, necessary to present a fair statement of financial position, results of operations and cash flows. The results of operations for the three month period ended March 31, 2014 are not necessarily indicative of the results to be expected for the year ended December 31, 2014 or for any other interim period or for any other future year.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Fair value of financial instruments and marketable securities

The Company follows the fair value measurement rules, which provides guidance on the use of fair value in accounting and disclosure for assets and liabilities when such accounting and disclosure is called for by other accounting literature. These rules establish a fair value hierarchy for inputs to be used to measure fair value of financial assets and liabilities. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels: Level 1 (highest priority), Level 2, and Level 3 (lowest priority).

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the balance sheet date.

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- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

- Level 3 Inputs are unobservable and reflect the Company s assumptions as to what market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available.

Cash equivalents are reflected in the accompanying financial statements at fair value. The carrying amount of grant and collaboration receivables, accounts payable and accrued expenses, and debt approximates fair value due to the short-term nature of those instruments.

Fair value of certain marketable securities is based upon market prices using quoted prices in active markets for identical assets quoted on the last day of the period. In establishing the estimated fair value of the remaining investments, the Company used the fair value as determined by its investment advisors using observable inputs other than quoted prices.

The Company reviews its investments on a periodic basis for other-than-temporary impairments. This review is subjective, as it requires management to evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment.

The following represents the fair value using the hierarchy described above for the Company s financial assets and liabilities that are required to be measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013:

	March 31, 2014			
	Total	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Marketable securities	$ 130,730	$	$ 130,730	$
Warrant liability	113			113

	December 31, 2013			
	Total	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Marketable securities	$ 127,053	$	$ 127,053	$
Warrant Liability	58			58

The following is a summary of marketable securities accounted for as available-for-sale securities at March 31, 2014 and December 31, 2013:

	March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$ 3,998	$ 2	$	$ 4,000
U.S. corporate debt securities	126,651	115	(36)	126,730
	$ 130,649	$ 117	$ (36)	$ 130,730

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$ 14,993	$ 5	$	$ 14,998
U.S. corporate debt securities	111,989	97	(31)	112,055
	$ 126,982	$ 102	$ (31)	$ 127,053

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At March 31, 2014 and December 31, 2013, the Company held securities with an unrealized loss position that were not considered to be other-than-temporarily impaired as the Company has the ability to hold such investments until recovery of their fair value.

Marketable securities on the balance sheet at March 31, 2014 and December 31, 2013 mature as follows:

	March 31, 2014	
	Less Than 12 Months	More Than 12 Months
Commercial paper	$ 4,000	$
U.S. corporate debt securities	74,509	52,221
Total Marketable securities	$ 78,509	$ 52,221

	December 31, 2013	
	Less Than 12 Months	More Than 12 Months
Commercial paper	$ 14,998	$
U.S. corporate debt securities	54,159	57,896
Total Marketable securities	$ 69,157	$ 57,896

Level 3 valuation

The warrant liability is classified in Other long-term liabilities on the Company s balance sheet. The warrant liability is marked-to-market each reporting period with the change in fair value recorded as a gain or loss within Other income (expense), net on the Company s statement of operations until the warrants are exercised, expire or other facts and circumstances lead the warrant liability to be reclassified as an equity instrument. The fair value of the warrant liability is determined at each reporting period by utilizing the Black-Scholes option pricing model.

The table presented below is a summary of changes in the fair value of the Company s Level 3 valuation for warrant liability for the period ended March 31, 2014:

	Level 3 assets
Beginning balance as of December 31, 2013	$ 58
Change in fair value of warrant liability	55
Ending balance as of March 31, 2014	$ 113

Fair value of the warrant liability is estimated using an option-pricing model, which includes variables such as the expected volatility based on guideline public companies, the stock fair value, and the estimated time to a liquidity event. The significant assumptions used in preparing the option pricing model for valuing the Company s warrants as of March 31, 2014 include (i) volatility (58-90%), (ii) risk free interest rate (0.03% 1.73%), (iii) strike price ($128.00 $2,520.00), (iv) fair value of common stock ($26.14), and (v) expected life (0.06 5.48 years). The significant assumptions used in preparing the option pricing model for valuing the Company s warrants as of December 31, 2013 include (i) volatility (61-89%), (ii) risk free interest rate (0.07% 2.10%), (iii) strike price ($128.00 $2,520.00), (iv) fair value of common stock ($16.97), and (v) expected life (0.30 5.70 years). See Note 6 for a description of the warrants issued in connection with the convertible notes.

4. Other comprehensive income (loss) and accumulated other comprehensive items

Other comprehensive income (loss) includes changes in equity that are excluded from net income (loss), such as unrealized gains and losses on marketable securities.

The following table summarizes other comprehensive loss and the changes in accumulated other comprehensive items for the three months ended March 31, 2014:

	Unrealized Gains On Marketable Securities	Total Accumulated Other Comprehensive Items
Balance at December 31, 2013	$ 70	$ 70
Other comprehensive income before reclassifications	10	10
Amounts reclassified from other comprehensive items		
Other comprehensive income	10	10
Balance at March 31, 2014	$ 80	$ 80

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5. Accounts payable and accrued expenses

Accounts payable and accrued expenses at March 31, 2014 and December 31, 2013 consist of the following:

	March 31, 2014	December 31, 2013
Employee compensation, benefits, and related accruals	$ 2,145	$ 5,103
Consulting and contracted research	3,516	4,006
Professional fees	1,960	1,294
Accounts payable	387	1,124
Other	727	680
	$ 8,735	$ 12,207

6. Capital structure

2013 Recapitalization

During January and February of 2013, the Company entered into a bridge financing arrangement with certain existing investors providing for the issuance by the Company of an aggregate of $6 million of convertible promissory notes and warrants to purchase 2,527,675 shares of Series One convertible preferred stock (Series One) and Series Two convertible preferred stock (Series Two). The warrants had a per share exercise price of $0.01, and as such, they are referred to as penny warrants . This bridge financing was closed in anticipation of the March 2013 Series Four financing event, which the Company refers to as the 2013 recapitalization .

The Company allocated the proceeds of the convertible promissory notes between debt and warrant liability. Since the value of the warrants exceeded the proceeds from the convertible notes issued to existing investors, the value of the warrant in excess of the proceeds is considered a deemed dividend and reflected as an equity transaction in the financial statements. The Company recorded $6 million to interest expense related to the debt discount associated with the convertible debt during the quarter ended March 31, 2013.

On March 7, 2013, the Company closed a private placement of a new series of convertible preferred stock that resulted in the 2013 recapitalization. In this private placement, the Company issued and sold an aggregate of 4,497,035 shares of its Series Four senior preferred stock (Series Four) for an aggregate purchase price of approximately $54 million. Including the $6 million raised with the bridge financing, total gross proceeds raised during the quarter ended March 31, 2013 was approximately $60 million. In addition, the Company issued an aggregate of 502,919 shares of Series Four upon the share settlement of the convertible promissory notes described above that were issued in January and February 2013.

In connection with this private placement, the Company effected a one-for-120 reverse stock split of its common stock and an exchange of outstanding shares of Series One, Series Two and Series Three convertible preferred stock (Series Three) into an aggregate of 6,700,487 shares of a new series of Series Five junior preferred stock (Series Five). In addition, the Company issued an aggregate of 2,527,675 shares of

Series One and Series Two upon the exercise of the warrants issued in connection with the bridge loan that were immediately exchanged for 2,095,515 shares of Series Five during the 2013 recapitalization.

The Company accounted for the 2013 recapitalization as an extinguishment of its Series One, Series Two and Series Three convertible preferred stock and recorded the Series Five shares at their fair value as of the recapitalization date. In accordance with authoritative accounting guidance, the Company recorded a gain attributable to the common stockholders on the extinguishment of the Series One, Series Two and Series Three. The gain of approximately $3.4 million represents the excess of the Series One, Series Two and Series Three over the fair value of the shares Series Five issued in connection with the recapitalization.

Initial Public Offering

In June 2013, the Company closed the initial public offering of its common stock pursuant to a registration statement on Form S-1, as amended. The Company issued and sold an aggregate of 9,627,800 shares of common stock under the registration statement at a public offering price of $15.00 per share, including 1,255,800 shares pursuant to the exercise by the underwriters of an over-allotment option. The Company received net proceeds from the initial public offering of approximately $131.6 million, after deducting underwriting discounts and commissions and other offering expenses payable by the Company.

Upon closing the initial public offering, all outstanding shares of the Series Four and Series Five were converted into 14,170,956 shares of common stock.

Follow-On Offering

In February 2014, the Company closed a follow-on public offering of its common stock pursuant to a registration statement on Form S-1, as amended. The Company issued and sold an aggregate of 5,163,265 shares of common stock under the registration statement at a public offering price of $24.50 per share, including 673,469 shares pursuant to the exercise by the underwriters of an over-allotment option. The Company received net proceeds from the initial public offering of approximately $118.2 million, after deducting underwriting discounts and commissions and other offering expenses payable by the Company.

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Warrants

All of the Company s outstanding warrants were classified as liabilities as of March 31, 2014 and December 31, 2013 because they contained non-standard antidilution provisions.

The following is a summary of the Company s outstanding warrants as of March 31, 2014 and December 31, 2013:

	Warrant shares		Exercise price	Expiration
Common stock	1,428	$	128.00	2014
Common stock	6,250	$	128.00	2017
Common stock	7,030	$	128.00	2019 and 2020
Common stock	452	$	2,520.00	2014

In connection with the 2013 recapitalization, all of the Series Two outstanding warrants became warrants to purchase Series Five. In connection with the Company s initial public offering all of the Series Five outstanding warrants became warrants to purchase common stock.

7. Net loss per share

Basic earnings per share is computed by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares plus the effect of dilutive potential common shares outstanding during the period.

The following tables set forth the computation of basic and diluted net loss per share for common stockholders:

	Three months ended March 31,			
	2014		2013	
Numerator				
Net loss	$	(14,098)	$	(14,684)
Deemed dividend				(18,249)
Gain on exchange of convertible preferred stock in connection with recapitalization				3,391
Net loss attributable to common stockholders	$	(14,098)	$	(29,542)
Denominator				
Denominator for basic and diluted net loss per share		24,492,487		4,526
Net loss per share:				
Basic and diluted	$	(0.58)*	$	(6,527.30)*

* In the three months ended March 31, 2014 and 2013, the Company experienced a net loss and therefore did not report any dilutive share impact.

The following table shows historical dilutive common share equivalents outstanding, which are not included in the above historical calculation, as the effect of their inclusion is anti-dilutive during each period.

	As of March 31,	
	2014	**2013**
Stock Options	3,133,830	46,642
Unvested restricted stock	748,456	735,324
Total	3,882,286	781,966

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8. Stock award plan

On March 5, 2013, the Company s Board of Directors approved the 2013 Stock Incentive Plan, which provides for the granting of stock option awards, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards in the aggregate of 739,937 shares of common stock. On March 5, 2013, the Board approved a grant of 735,324 shares of restricted stock and 4,613 stock options. There are no additional shares available for issuance under this plan.

In May 2013, the Company s Board of Directors and stockholders increased by 2,500,000 the number of shares authorized under the 2009 Stock Incentive Plan, which provides for the granting of stock option awards, restricted stock awards, and other stock-based and cash-based awards.

In May 2013, the Company s Board of Directors and stockholders approved the 2013 Long Term Incentive Plan, which became effective upon the closing of the Company s IPO. The 2013 Long Term Incentive Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards and other stock-based awards. The number of shares of common stock reserved for issuance under the 2013 Long Term Incentive Plan is the sum of (1) 122,296 shares of common stock available for issuance under the Company s 2009 Equity and Long Term Incentive Plan and 2013 Stock Incentive Plan, (2) the number of shares (up to 3,040,444 shares) equal to the sum of the number of shares of common stock subject to outstanding awards under the Company s 1998 Employee, Director and Consultant Stock Option Plan and 2013 Stock Incentive Plan that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company at their original issuance price pursuant to a contractual repurchase right plus (3) an annual increase, to be added on the first day of each fiscal year until the expiration of the 2013 Long Term Incentive Plan, equal to the lowest of 2,500,000 shares of common stock, 4% of the number of shares of common stock outstanding on the first day of the fiscal year and an amount determined by the Company s Board of Directors.

A summary of stock option activity is as follows:

	Number of options	Exercise price	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2013	2,095,592	$ 10.59 1,149.60	$ 20.24		
Granted	1,121,196	$ 26.07 33.97	$ 27.95		
Exercised		$	$		
Forfeited	(82,964)	$ 10.85 490.80	$ 11.43		
Outstanding at March 31, 2014	3,133,824	$ 10.59 1,149.60	$ 23.23	9.33 years	$ 29,217
Vested or expected to vest at March 31, 2014	2,880,322		$ 21.67	9.37 years	$ 27,210
Exercisable at March 31, 2014	183,214		$ 107.87	7.95 years	$ 2,224

The fair value of grants made in the period ended March 31, 2014 was contemporaneously estimated on the date of grant using the following assumptions:

	Three months ended March 31, 2014
Risk-free interest rate	0.11% 1.91%
Expected volatility	89% 90%
Expected term	5.50 6.25 years

The Company assumed no expected dividends for all grants. The weighted average grant date fair value of options granted during the three month period ended March 31, 2014 was $20.88 per share.

The Company uses the simplified method to determine the expected term of options. Under this method, the expected term represents the average of the vesting period and the contractual term. The expected volatility of share options was estimated based on a historical volatility analysis of peers that were similar to the Company with respect to industry, stage of life cycle, size, and financial leverage. The risk-free rate of the option is based on U.S. Government Securities Treasury Constant Maturities yields at the date of grant for a term similar to the expected term of the option.

Restricted Stock Awards Restricted stock awards are granted subject to certain restrictions, including in some cases service conditions (restricted stock). The grant-date fair value of restricted stock awards, which has been determined based upon the market value of the Company s shares on the grant date, is expensed over the vesting period.

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The following table summarizes information on the Company s restricted stock:

	Restricted Stock	
	Number of Shares	Weighted Average Grant Date Fair Value
January 1, 2014	1,110,226	$ 10.68
Granted		
Vested	(359,450)	$ 10.59
Forfeited	(2,320)	$ 10.59
Unvested at March 31, 2014	748,456	$ 10.73

The Company recorded share-based compensation expense in the statement of operations as follows:

	Three Months Ended March 31,	
	2014	2013
Research and development	$ 1,944	$ 257
General and administrative	1,761	364
Total	$ 3,705	$ 621

As of March 31, 2014 there was approximately $40.1 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the 1998, 2009 and 2013 Plans. This cost is expected to be recognized as share-based compensation expense over the weighted average remaining service period of approximately 2.88 years.

9. Collaboration Revenue

On January 22, 2014, the Company announced the initiation of a Phase 1 clinical program in its spinal muscular atrophy collaboration with F. Hoffman-La Roche Ltd and Hoffman-La Roche Inc. (Roche) and the Spinal Muscular Atrophy Foundation which triggered a $7.5 million milestone payment from Roche. The Company considered this milestone event substantive because the applicable criteria of its revenue recognition policy would be satisfied and recorded it as collaboration revenue for the three months ended March 31, 2014.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the notes to those financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management s discussion and analysis of financial condition and results of operations for the year ended December 31, 2013 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 6, 2014. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth in Part II, Item 1A. (Risk Factors) of this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are a biopharmaceutical company focused on the discovery and development of orally administered, proprietary small molecule drugs that target post-transcriptional control processes. Our lead candidate is ataluren for the treatment of patients with genetic disorders that arise from a type of genetic mutation known as a nonsense mutation. In collaboration with Roche and the SMA Foundation, our spinal muscular atrophy program recently entered the clinic. Additionally, we have a pipeline of product candidates that are in preclinical development focused on new treatments for multiple therapeutic areas, including neuromuscular disease, oncology and infectious diseases.

We have initiated a confirmatory Phase 3 clinical trial of ataluren for the treatment of Duchenne muscular dystrophy caused by nonsense mutations, or nmDMD. We refer to this trial as the Ataluren Confirmatory Trial in DMD, or ACT DMD. We dosed the first patient in this trial in April 2013. In October 2012, we submitted a marketing authorization application, or MAA, to the European Medicines Agency, or EMA, for conditional approval of ataluren for the treatment of nmDMD. In January 2014, the EMA s Committee for Medicinal Products for Human Use, or CHMP, adopted a negative opinion recommending the refusal of the granting of the conditional marketing authorization for ataluren for the treatment of nmDMD. We have requested a re-examination of the CHMP opinion and currently expect a final outcome in the second quarter of 2014. We plan to complete our confirmatory Phase 3 ACT DMD clinical trial before applying for marketing approval from the U.S. Food and Drug Administration, or FDA. We are also planning a Phase 3 clinical trial of ataluren for the treatment of cystic fibrosis caused by nonsense mutations, or nmCF. We plan to begin dosing patients in this trial in the first half of 2014. In addition, we are pursuing early access programs for ataluren for nmDMD patients in selected territories that support reimbursement for such programs. We also plan to pursue additional indications for ataluren beyond nmDMD and nmCF and expect to initiate a proof-of-concept study for a third indication in 2014.

To date, we have financed our operations primarily through our public offering in February 2014, our initial public offering in June 2013, private placements of our preferred stock, collaborations, bank debt and convertible debt financings and grants and clinical trial support from governmental and philanthropic organizations and patient advocacy groups in the disease areas addressed by our product candidates. As of March 31, 2014, we had an accumulated deficit of $342.9 million. We had a net loss of $14.1 million for the three months ended March 31, 2014 and a net loss of $14.7 million for the three months ended March 31, 2013.

We anticipate that our expenses will increase substantially in connection with initiating and continuing confirmatory Phase 3 clinical trials for ataluren for the treatment of nmDMD and nmCF, commencing early access programs for ataluren for nmDMD patients in selected territories and seeking marketing approval for ataluren for these indications in the European Union and the United States. If we obtain marketing approval of ataluren for either nmDMD or nmCF, we also expect to incur significant sales, marketing, distribution and manufacturing expenses, as well as ongoing research and development expenses for our other product candidates. The timing of commercialization expenses for ataluren depends in part on whether we receive conditional approval for ataluren for either or both of nmDMD and nmCF. Furthermore, as a result of our initial

public offering in June 2013, we have incurred and expect to continue to incur additional costs associated with operating as a public company. These costs include significant legal, accounting, investor relations and other expenses that we did not incur as a private company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. Adequate additional financing may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts. We will need to generate significant revenues to achieve and sustain profitability, and we may never do so.

Financial operations overview

Revenues

To date, we have not generated any product sale revenues. Based on our current plans, we do not expect to generate significant product revenues unless and until we obtain marketing approval for, and commercialize, ataluren for the treatment of nmDMD or

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nmCF. The timing of any product revenues depends in part on whether we receive conditional approval for ataluren for either or both of nmDMD and nmCF. Our revenues to date have consisted of collaborative agreements revenues and grant revenues.

We have ongoing collaborations with F. Hoffman-La Roche Ltd and Hoffman-La Roche Inc., which we refer to collectively as Roche, and the Spinal Muscular Atrophy Foundation, or the SMA Foundation, for our spinal muscular atrophy program and early stage discovery arrangements with other institutions.

Roche and the SMA Foundation. In November 2011, we entered into a license and collaboration agreement with Roche and the SMA Foundation pursuant to which we are collaborating with Roche and the SMA Foundation to further develop and commercialize compounds identified under our spinal muscular atrophy sponsored research program with the SMA Foundation, as described below, and to research, develop and commercialize other small molecule compounds with potential for therapeutic use in patients with spinal muscular atrophy. Pursuant to the license and collaboration agreement, Roche paid us an upfront nonrefundable payment of $30.0 million.

In August 2013, we announced the selection of a development candidate. The achievement of this milestone triggered a $10.0 million payment to us from Roche, which we recorded as collaboration revenue for the year ended December 31, 2013.

In January 2014, we initiated a Phase 1 clinical program, which triggered a $7.5 million milestone payment to us from Roche. Roche is responsible for pursuing clinical development of compounds from the program, consistent with a governance structure that includes representation from us and the SMA Foundation, and then commercialization of these compounds.

Grant revenue. We receive grant funding from various institutions and governmental bodies. The grants are typically for early discovery research, and generally the grant program lasts from two to five years.

Research and development expense

Research and development expenses consist of the costs associated with our research activities, as well as the costs associated with our drug discovery efforts, conducting preclinical studies and clinical trials, manufacturing development efforts and activities related to regulatory filings. Our research and development expenses consist of:

- external research and development expenses incurred under agreements with third-party contract research organizations and investigative sites, third-party manufacturing organizations and consultants;

- employee-related expenses, which include salaries and benefits, including share-based compensation, for the personnel involved in our drug discovery and development activities; and

- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation of leasehold improvements and equipment, and laboratory and other supplies.

We use our employee and infrastructure resources across multiple research projects, including our drug development programs. We track expenses related to our clinical programs and certain preclinical programs on a per project basis.

We expect our research and development expenses to increase in connection with our ongoing activities, particularly as we initiate and continue confirmatory Phase 3 clinical trials of ataluren for the treatment of nmDMD and nmCF, continue our research activities in our preclinical programs and initiate clinical development of other product candidates. The timing and amount of these expenses will depend upon the outcome of our ongoing clinical trials and the costs associated with our planned clinical trials. The timing and amount of these expenses will also depend on the costs associated with potential future clinical trials of our product candidates and the related expansion of our research and development organization, regulatory requirements, advancement of our preclinical programs and product candidate manufacturing costs.

The following table provides research and development expense for our most advanced principal product development programs.

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	Three months ended March 31,	
	2014	2013
	(in thousands)	
Ataluren	$ 9,392	$ 6,439
Antibacterial	2,054	1,223
BMI1	644	930
Spinal muscular atrophy	666	674
Other research and preclinical	3,133	1,991
Total research and development	$ 15,889	$ 11,257

The successful development of our product candidates is highly uncertain. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the scope, rate of progress and expense of our clinical trials and other research and development activities;
- the potential benefits of our product candidate over other therapies;
- our ability to market, commercialize and achieve market acceptance for any of our product candidates that we are developing or may develop in the future;
- clinical trial results;
- the terms and timing of regulatory approvals; and
- the expense of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights.

A change in the outcome of any of these variables with respect to the development of ataluren or any other product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the EMA or FDA or other regulatory authority were to require us to conduct clinical trials beyond those which we currently anticipate will be required for the completion of clinical development of ataluren or any other product candidate or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time on the completion of clinical development.

General and administrative expense

General and administrative expenses consist primarily of salaries and other related costs for personnel, including share-based compensation expenses, in our executive, legal, business development, finance, accounting, information technology and human resource functions. Other general and administrative expenses include facility-related costs not otherwise included in research and development expense; advertising and promotional expenses; costs associated with industry and trade shows; and professional fees for legal services, including patent-related expenses, and accounting services.

We expect that general and administrative expenses will increase in future periods as a result of increased payroll, expanded infrastructure, commercial operations, increased consulting, legal, accounting and investor relations expenses associated with being a public company and costs incurred to seek collaborations with respect to any of our product candidates, among other factors.

Interest income (expense), net

Interest income (expense), net consists of interest expense related to our secured debt facility and interest income earned on investments. In July 2013, we paid in full the outstanding principal and interest related to our secured debt facility.

Critical accounting policies and significant judgments and estimates

Our management s discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. Actual results may differ from these estimates under different assumptions or conditions.

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While our significant accounting policies are more fully described in the notes to our financial statements appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, we believe that the following accounting policies are the most critical to understanding and evaluating our financial condition and results of operations.

As an emerging growth company under the Jumpstart Our Business Startups Act of 2012, we have elected to delay the adoption of new or revised accounting standards until those standards would otherwise apply to private companies. As a result of this election, our financial statements may not be comparable to the financial statements of other public companies.

Revenue recognition

We recognize revenue when amounts are realized or realizable and earned. Revenue is considered realizable and earned when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the price is fixed or determinable; and (4) collection of the amounts due are reasonably assured.

Our revenue is generated primarily through collaborative research and development and licensing agreements and grants.

The terms of these agreements typically include payments of one or more of the following: nonrefundable, upfront license fees; milestone payments; research funding; and royalties on future product sales. In addition, we generate service revenue through agreements that generally provide for fees for research and development services and may include additional payments upon achievement of specified events.

For existing collaborations entered into prior to the adoption in 2011 of the revised multiple element revenue recognition guidance described below, we recognize revenue consistent with the approach established at the inception of each arrangement. For these existing collaborations, where we have continued involvement, we recorded nonrefundable, upfront fees as deferred revenue and recognize revenue on a straight line basis as collaboration revenue over the expected performance period.

For new collaborations or for material modifications made to existing collaborations, in 2011, we adopted the updated multiple element revenue recognition guidance. Under this guidance, all non-contingent arrangement consideration is allocated to the identified units of accounting based on their relative selling price at inception of the collaboration arrangement. We derive the selling price using a combination of internal subjective and available external objective information, such as comparable transactions. We recognize revenue commensurate with delivery, such as in the case with delivery of a license, or ratably over the course of a service period, as appropriate, such as in the case of ongoing research and development activities.

We evaluate all contingent consideration earned, such as a milestone payment, using the criteria as provided by the Financial Accounting Standards Board, or FASB, guidance on the milestone method of revenue recognition. At the inception of a collaboration arrangement, we evaluate if milestone payments are substantive. The criteria requires that (1) we determine if the milestone is commensurate with either its performance to achieve the milestone or the enhancement of value resulting from our activities to achieve the milestone; (2) the milestone be related to past performance; and (3) the milestone be reasonable relative to all deliverable and payment terms of the collaboration arrangement.

If these criteria are met then the contingent milestones can be considered as substantive milestones and will be recognized as revenue in the period that the milestone is achieved. We recognize royalties as earned in accordance with the terms of various research and collaboration agreements. If not substantive, the contingent consideration is allocated to the existing units of accounting based on relative selling price and recognized following the same basis previously established for the associated unit of accounting.

We recognize reimbursements for research and development costs under collaboration agreements as revenue as the services are performed. We record these reimbursements as revenue and not as a reduction of research and development expenses as we have the risks and rewards as the principal in the research and development activities.

Our principal obligation under our grant agreements is to conduct the internal or external research in the specific field funded by the grant. We determine, through the grant s normal research process, which research and development projects to pursue. We recognize grant revenues as the research activities are performed. If the grant includes an upfront payment, we defer the amount and recognize it as revenue as the expenditures are incurred.

Accrued expenses

As part of the process of preparing our financial statements, we are required to estimate accrued expenses. This process involves communicating with our applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us monthly in arrears for services performed. We make estimates of our accrued

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expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us. Examples of estimated accrued expenses include:

- fees paid to contract research organizations in connection with preclinical and toxicology studies and clinical trials;
- fees paid to investigative sites in connection with clinical trials;
- fees paid to contract manufacturers in connection with the production of clinical trial materials; and
- professional service fees.

Share-based compensation

We expect to grant additional stock options that will result in additional share-based compensation expense. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. For service type awards, share-based compensation expense is recognized on a straight-line basis over the period during which the employee is required to provide service in exchange for the entire award. For awards that vest or begin vesting upon achievement of a performance condition, we estimate the likelihood of satisfaction of the performance condition and recognize compensation expense when achievement of the performance condition is deemed probable using an accelerated attribution model.

The fair value of options is calculated using the Black-Scholes option pricing model to determine the fair value of stock options on the date of grant based on key assumptions, such as expected volatility and expected term. As a new public company, we do not have sufficient history to estimate the volatility of our common stock price or the expected life of the options. We calculate expected volatility based on reported data for similar publicly traded companies for which historical information is available and will continue to do so until the historical volatility of our common stock is sufficient to measure expected volatility for future option grants.

Restricted stock awards are granted subject to certain restrictions, including service conditions. The grant date fair value of restricted stock awards, which is determined based upon the market value of our common stock on the grant date, is expensed over the vesting period.

The fair value of grants made in the three months ended March 31, 2014 and 2013 was contemporaneously estimated on the date of grant using the following assumptions:

	Three months ended March 31,	
	2014	2013
Risk-free interest rate	0.11% 1.91%	0.85%
Expected volatility	89% 90%	88%
Expected term	5.50 6.25 years	5.00 years

We assumed no expected dividends for all grants. The weighted average grant date fair value per share was $20.88 for options granted during the three months ended March 31, 2014 and $7.22 for options granted during the three months ended March 31, 2013.

We use the simplified method to determine the expected term of options. Under this method, the expected term represents the average of the vesting period and the contractual term. The expected volatility of share options was estimated based on a historical volatility analysis of peers that were similar to us with respect to industry, stage of life cycle, size and financial leverage. The risk-free rate of the options is based on U.S. Government Securities Treasury Constant Maturities yields at the date of grant for a term similar to the expected term of the option.

We recognized share-based compensation expense of approximately $3.7 million for the three months ended March 31, 2014 and $0.6 million for the three months ended March 31, 2013.

We had total unrecognized compensation cost related to unvested share-based compensation arrangements of $40.1 million as of March 31, 2014 and $8.2 million as of March 31, 2013. We expect to recognize this cost as share-based compensation expense over the weighted average remaining service period of approximately 2.88 years.

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Results of operations

Three months ended March 31, 2014 compared to three months ended March 31, 2013

The following table summarizes revenues and selected expense and other income data for the three months ended March 31, 2014 and 2013.

	Three months ended March 31,		
(in thousands)	**2014**	**2013**	**Change 2014 vs. 2013**
Revenues	$ 9,217	$ 7,142	$ 2,075
Research and development expense	15,889	11,257	4,632
General and administrative expense	7,540	4,461	3,079
Interest income (expense), net	171	(6,162)	6,333

Revenues. Revenues were $9.2 million for the three months ended March 31, 2014, an increase of $2.1 million, or 29%, from $7.1 million for the three months ended March 31, 2013. Collaboration revenue was $9.1 million for the three months ended March 31, 2014, an increase of $3.1 million, or 51%, from collaboration revenues of $6.0 million for the three months ended March 31, 2013. The increase was due to recognition of a $7.5 million milestone in our spinal muscular atrophy collaboration with Roche which was partially offset by a decrease in the recognition of non-cash deferred revenue compared to the same period in 2013. Grant revenue was $0.1 million for the three months ended March 31, 2014, a decrease of $1.0 million from grant revenue of $1.1 million for the three months ended March 31, 2013.

Research and development expense. Research and development expense was $15.9 million for the three months ended March 31, 2014, an increase of $4.6 million, or 41%, from $11.3 million for the three months ended March 31, 2013. The increase resulted primarily from an increase in clinical trial related expenses and an increase in non-cash share based compensation of approximately $1.7 million.

General and administrative expense. General and administrative expense was $7.5 million for the three months ended March 31, 2014, an increase of $3.1 million, or 69%, from $4.5 million for the three months ended March 31, 2013. The increase resulted primarily from increased non-cash share based compensation expense of approximately $1.3 million and increased costs related to pre-commercial activities and public company costs.

Interest income (expense), net. Net interest income was $0.2 million for the three months ended March 31, 2014. The increase from interest expense of $6.2 million for the three months ended March 31, 2013 was due to non-cash interest related to the debt discount associated with the convertible debt issued in 2013.

Liquidity and capital resources

Sources of liquidity

Since inception, we have incurred significant operating losses. To date, we have not generated any product sale revenues. We have financed our operations primarily through the issuance and sale of our common stock in our public offering in February 2014, our initial public offering in June 2013, private placements of our preferred stock, collaborations, bank debt and convertible debt financings and grants and clinical trial support from governmental and philanthropic organizations and patient advocacy groups in the disease areas addressed by our product candidates. In February 2014, we closed a public offering of 5,163,265 shares of common stock at a public offering price of $24.50 per share, including 673,469 shares pursuant to the exercise by the underwriters of an over-allotment option. We received net proceeds from the public offering of approximately $118.2 million after deducting underwriting discounts and commissions and other offering expenses payable by us.

Cash flows

As of March 31, 2014, we had cash, cash equivalents and marketable securities of $246.6 million.

The following table provides information regarding our cash flows and our capital expenditures for the periods indicated.

	Three months ended March 31,	
(in thousands)	**2014**	**2013**
Cash provided by (used in):		
Operating activities	$ (13,438)	$ (7,847)
Investing activities	(4,267)	(21)
Financing activities	118,146	55,389

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Net cash used in operating activities was $13.4 million for the three months ended March 31, 2014 and $7.8 million for the three months ended March 31, 2013. The change in net cash used in operating activities primarily related to supporting clinical development and pre-commercial activities.

Net cash used in investing activities was $4.3 million for the three months ended March 31, 2014 and $0.02 million for the three months ended March 31, 2013. Cash used in investing activities was related to net purchases of investments for the three months ended March 31, 2014. Cash used in investing activities primarily related to purchases of property and equipment for the three months ended March 31, 2013.

Net cash provided by financing activities was $118.1 million for the three months ended March 31, 2014. Net cash provided by financing activities in 2014 was primarily attributable to approximately $118.2 million in net proceeds from the public offering in February 2014. Net cash provided by financing activities was $55.4 million for the three months ended March 31, 2013. Net cash provided by financing activities in 2013 was primarily attributable to the $56.5 million in net proceeds that we received from the sale of Series Four preferred stock. Partially offsetting these proceeds were payments on debt obligations of $1.1 million in 2013.

Funding requirements

We anticipate that our expenses will increase substantially in connection with initiating and continuing confirmatory Phase 3 clinical trials for ataluren for the treatment of nmDMD and nmCF, commencing early access programs for ataluren for nmDMD patients in selected territories and seeking marketing approval for ataluren for these indications in the European Union and the United States. If we obtain marketing approval of ataluren for either nmDMD or nmCF, we also expect to incur significant selling, marketing, distribution and manufacturing expenses. The timing of commercialization expenses for ataluren depends in part on whether we receive conditional approval for ataluren for either or both of nmDMD and nmCF.

In addition, our expenses will increase if and as we:

- initiate or continue the research and development of ataluren for additional indications and of our other product candidates;
- seek to discover and develop additional product candidates;
- maintain, expand and protect our intellectual property portfolio; and
- add operational, financial and management information systems and personnel, including personnel to support our product development and planned future commercialization efforts.

We believe that our existing cash and cash equivalents, including the net proceeds from our public offerings of common stock, marketable securities and research funding that we expect to receive under our collaborations, will be sufficient to enable us to fund our operating expenses, debt service obligations and capital expenditure requirements through 2016. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. This estimate assumes, among other things, that we do not receive conditional approval to market ataluren for nmDMD or nmCF in the European Union prior to completing a confirmatory Phase 3 clinical trial for the applicable indication and, as a result, that we do not incur significant related commercialization expenses prior to such time. Our future capital requirements will depend on many factors, including:

- the progress and results of confirmatory Phase 3 clinical trials of ataluren for nmDMD and nmCF;

- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for ataluren for additional indications and for our other product candidates;

- the number and development requirements of other product candidates that we pursue;

- the costs, timing and outcome of regulatory review of ataluren and our other product candidates;

the costs and timing of commercialization activities, including product sales, marketing, distribution and manufacturing, for any of our product candidates that receive marketing approval;

- subject to receipt of marketing approval, revenue received from commercial sales of ataluren or any of our other product candidates;

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- the costs of preparing, filing and prosecuting patent applications, maintaining, and protecting our intellectual property rights and defending against intellectual property-related claims;

- the extent to which we acquire or invest in other businesses, products and technologies; and

- our ability to establish and maintain collaborations.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances, grants and clinical trial support from governmental and philanthropic organizations and patient advocacy groups in the disease areas addressed by our product candidates and marketing, distribution or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Contractual obligations

The following table summarizes our significant contractual obligations and commercial commitments as of March 31, 2014.

(in thousands)	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Debt obligations	$ 12	$ 12	$	$	$
Operating and equipment lease obligations(1)	4,314	866	2,556	892	
Total fixed contractual obligations	$ 4,326	$ 878	$ 2,556	$ 892	$

(1) We lease office space under a noncancelable operating lease with a term that extends through February 2019. We also lease certain office equipment under operating leases.

The preceding table excludes contingent contractual payments that we may become obligated to make. Under various agreements, we will be required to pay royalties and milestone payments upon the successful development and commercialization of products, including the following agreements with The Wellcome Trust Limited, or Wellcome Trust, and the SMA Foundation.

We have entered into funding agreements with Wellcome Trust for the research and development of small molecule compounds in connection with our BMI1 and antibacterial programs. To the extent that we develop and commercialize program intellectual property on a for-profit basis, we may become obligated to pay to Wellcome Trust development and regulatory milestone payments of up to an aggregate of $68.9 million and single-digit royalties on sales of any research program product. Our obligation to pay such royalties would continue on a country-by-country basis until the longer of the expiration of the last patent in the program intellectual property in such country covering the research program product and the expiration of market exclusivity of such product in such country.

We have also entered into a sponsored research agreement with the SMA Foundation in connection with our spinal muscular atrophy program. We may become obligated to pay the SMA Foundation single-digit royalties on worldwide net product sales of any collaboration product that we successfully develop and subsequently commercialize or, with respect to collaboration products we outlicense, a specified percentage of certain payments we receive from our licensee. We are not obligated to make such payments unless and until annual sales of a collaboration product exceed a designated threshold. Our obligation to make such payments would end upon our payment to the SMA Foundation of a specified amount.

We have employment agreements with certain employees which require the funding of a specific level of payments, if certain events, such as a change in control or termination without cause, occur.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to changes in interest rates. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in short-term securities. Our available for sale securities are subject to interest rate risk and will fall in value if market interest rates increase.

Item 4. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2014. The term disclosure controls and procedures , as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time in the ordinary course of our business, we are subject to claims, legal proceedings and disputes as a result of patients seeking to participate in our clinical trials or otherwise gain access to our product candidates. These matters are subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to us. However, we believe that the ultimate outcome of the matters that are currently pending will not have a material adverse impact on our business.

Item 1A. Risk Factors.

The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see page 1 of this Quarterly Report on Form 10-Q for a discussion of some of the forward-looking statements that are qualified by these risk factors. If any of the following risks occur, our business, financial condition,

results of operations and future growth prospects could be materially and adversely affected.

Risks Related to Our Financial Position and Need for Additional Capital

We have incurred significant losses since our inception. We expect to incur losses for at least the next several years and may never generate profits from operations or maintain profitability.

Since inception, we have incurred significant operating losses. As of March 31, 2014, we had an accumulated deficit of $342.9 million. To date, we have financed our operations primarily through the issuance and sale of our common stock in public offerings, the private placements of our preferred stock, collaborations, bank debt, convertible debt financings, grant funding and clinical trial support from governmental and philanthropic organizations and patient advocacy groups in the disease areas addressed by our product candidates.

We have devoted substantially all of our efforts to research and development, including clinical trials. We have not completed development of any drugs. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years. The net losses we incur may fluctuate significantly from quarter to quarter.

We anticipate that our expenses will increase substantially in connection with initiating and completing confirmatory Phase 3 clinical trials for our lead product candidate, ataluren, for the treatment of patients with Duchenne muscular dystrophy caused by nonsense mutations, or nmDMD, and patients with cystic fibrosis caused by nonsense mutations, or nmCF, commencing early access programs for ataluren for nmDMD patients in selected territories and seeking marketing approval for ataluren for these indications in the European Union and the United States. In October 2012, we submitted a marketing authorization application, or MAA, to the

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European Medicines Agency, or EMA, for conditional approval of ataluren for the treatment of nmDMD. In January 2014, the EMA s Committee for Medicinal Products for Human Use, or CHMP, adopted a negative opinion recommending the refusal of the granting of the conditional marketing authorization for ataluren for the treatment of nmDMD. We have requested a re-examination of the CHMP opinion and currently expect a final outcome in the second quarter of 2014. EMA conditional approval would permit us to market ataluren in the European Union for treatment of the applicable indication prior to completion of the confirmatory Phase 3 clinical trial for that indication. If we obtain marketing approval of ataluren for either nmDMD or nmCF, we also expect to incur significant sales, marketing, distribution and manufacturing expenses. The timing of commercialization expenses for ataluren depends in part on whether we receive conditional approval for ataluren for either or both of nmDMD and nmCF.

In addition, our expenses will increase if and as we:

- initiate or continue the research and development of ataluren for additional indications and of our other product candidates;
- seek to discover and develop additional product candidates;
- maintain, expand and protect our intellectual property portfolio; and
- add operational, financial and management information systems and personnel, including personnel to support our product development and planned future commercialization efforts.

Our ability to generate profits from operations and remain profitable depends on our ability to successfully develop and commercialize drugs that generate significant revenue. Based on our current plans, we do not expect to generate significant revenue unless and until we obtain marketing approval for, and commercialize, ataluren for the treatment of nmDMD or nmCF. This will require us to be successful in a range of challenging activities, including:

- obtaining approval to market ataluren for the treatment of either or both of nmDMD and nmCF;
- successfully initiating and completing confirmatory Phase 3 clinical trials of ataluren for the treatment of either or both of nmDMD and nmCF;
- protecting our rights to our intellectual property portfolio related to ataluren;

- contracting for the manufacture of commercial quantities of ataluren;

- negotiating and securing adequate reimbursement from third-party payors for ataluren; and

- establishing sales, marketing and distribution capabilities to effectively market and sell ataluren in the European Union and the United States.

We may never succeed in these activities and, even if we do, may never generate revenues that are significant enough to generate profits from operations. Even if we do generate profits from operations, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to generate profits from operations and remain profitable would decrease the value of our company and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or continue our operations. A decline in the value of our company could also cause our stockholders to lose all or part of their investment in our company.

We will need substantial additional funding. If we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development programs or commercialization efforts.

We expect our research and development expenses to increase in connection with our ongoing activities, particularly as we initiate and continue confirmatory Phase 3 clinical trials of ataluren for the treatment of nmDMD and nmCF, continue our research activities in our preclinical programs and initiate clinical development of other product candidates. In addition, if we obtain regulatory approval for ataluren or any of our other product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, distribution and manufacturing. We also expect to incur expenses in connection with commencing early access programs for ataluren for nmDMD patients in selected territories. Furthermore, since the closing of our initial public offering in June 2013, we have begun to incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts.

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We believe that our existing cash and cash equivalents, including the net proceeds from our initial public offering and our public offering of common stock that we completed in February 2014, and marketable securities, as well as research funding that we expect to receive under our collaborations will be sufficient to enable us to fund our operating expenses, debt service obligations and capital expenditure requirements through 2016. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. This estimate assumes, among other things, that we do not receive conditional approval to market ataluren for nmDMD or nmCF in the European Union prior to completing a confirmatory Phase 3 clinical trial for the applicable indication and, as a result, that we do not incur significant related commercialization expenses prior to such time. Our future capital requirements will depend on many factors, including:

- the progress and results of confirmatory Phase 3 clinical trials of ataluren for nmDMD and nmCF;

- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for ataluren for additional indications and for our other product candidates;

- the number and development requirements of other product candidates that we pursue;

- the costs, timing and outcome of regulatory review of ataluren and our other product candidates;

- the costs and timing of commercialization activities, including product sales, marketing, distribution and manufacturing, for any of our product candidates that receive marketing approval;

- subject to receipt of marketing approval, revenue received from commercial sales of ataluren or any of our other product candidates;

- the costs of preparing, filing and prosecuting patent applications, maintaining, and protecting our intellectual property rights and defending against intellectual property-related claims;

- the extent to which we acquire or invest in other businesses, products and technologies; and

- our ability to establish and maintain collaborations, including our collaborations with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche, Inc., which we refer to collectively as Roche, and the Spinal Muscular Atrophy Foundation, or the SMA Foundation, and our ability to obtain research funding and achieve milestones under these agreements.

Conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain regulatory approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we are not planning to have commercially available for several years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. In addition, we may seek additional capital due to favorable market conditions or based on strategic considerations, even if we believe that we have sufficient funds for our current or future operating plans. Additional financing may not be available to us on acceptable terms or at all.

Raising additional capital may cause dilution to our stockholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings; debt financings; collaborations; strategic alliances; grants and clinical trial support from governmental and philanthropic organizations and patient advocacy groups in the disease areas addressed by our product candidates; and marketing, distribution or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, our shareholders ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates; or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

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Our limited operating history may make it difficult for our stockholders to evaluate the success of our business to date and to assess our future viability.

Our operations to date have been limited to organizing and staffing our company, developing and securing our technology, raising capital and undertaking preclinical studies and clinical trials of our product candidates. We have not yet demonstrated our ability to successfully complete development of any product candidates, obtain marketing approvals, manufacture a commercial scale product or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, any predictions our stockholders make about our future success or viability may not be as accurate as they could be if we had a longer operating history.

In addition, as a new business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors. We will need to transition from a company with a research and development focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

Risks related to the development and commercialization of our product candidates

We depend heavily on the success of our lead product candidate, ataluren, which we are developing for nmDMD and nmCF. All of our other product candidates are still in preclinical development. If we are unable to commercialize ataluren, or experience significant delays in doing so, our business will be materially harmed.

We have invested a significant portion of our efforts and financial resources in the development of ataluren for nmDMD and nmCF. Our ability to generate product revenues, which may not occur for several years, if ever, will depend heavily on the successful development and commercialization of ataluren. The success of ataluren will depend on a number of factors, including the following:

- successful completion of confirmatory Phase 3 clinical trials of ataluren;

- receipt of marketing approvals for ataluren in the European Union and the United States, including possible receipt of conditional approval to market ataluren in the European Union prior to completion of confirmatory Phase 3 clinical trials;

- establishing commercial manufacturing arrangements with third-party manufacturers;

- building an infrastructure capable of supporting product sales, marketing and distribution of ataluren in territories where we pursue commercialization directly;

- launching commercial sales of ataluren, if and when approved, whether alone or in collaboration with others;

- acceptance of ataluren, if and when approved, by patients, the medical community and third-party payors;

- effectively competing with other therapies;

- a continued acceptable safety profile of ataluren following approval;

- obtaining and maintaining patent and trade secret protection and regulatory exclusivity; and

- protecting our rights in our intellectual property portfolio. If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize ataluren, which would materially harm our business.

If clinical trials of our product candidates, such as our confirmatory Phase 3 clinical trials of ataluren, fail to demonstrate safety and efficacy to the satisfaction of the EMA or the U.S. Food and Drug Administration, or FDA, or do not otherwise produce favorable results, we may experience delays in completing, or ultimately be unable to complete, the development and commercialization of ataluren or any other product candidate.

In connection with seeking marketing approval from regulatory authorities for the sale of any product candidate, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more clinical trials can occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that

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have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their products.

For example, we did not achieve the primary efficacy endpoint with the pre-specified level of statistical significance in a Phase 2b clinical trial of ataluren for the treatment of nmDMD that we completed in 2009 or in a Phase 3 clinical trial of ataluren for the treatment of nmCF that we completed in 2011. Although we believe that the collective data from these trials, including retrospective and subgroup analyses that we have performed, provide strong support for concluding that ataluren was active and showed clinically meaningful improvements over placebo in these trials, we may similarly fail to achieve the primary efficacy endpoint in confirmatory Phase 3 clinical trials of ataluren for these indications. If the results of our confirmatory Phase 3 clinical trials are not favorable, we may need to conduct additional clinical trials at significant cost or altogether abandon development of ataluren for either or both of nmDMD and nmCF. We also did not achieve the primary objective in one of four prior Phase 2 clinical trials that we conducted for ataluren for the treatment of nmCF in which we measured change in chloride conductance in nasal cells over the course of treatment.

If we are required to conduct additional clinical trials or other testing of ataluren or any other product candidate that we develop beyond those that we contemplate; if we are unable to successfully complete our clinical trials or other testing; if the results of these trials or tests are not positive or are only modestly positive; or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for our product candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings, including boxed warnings;
- be subject to additional post-marketing testing requirements or restrictions; or
- have the product removed from the market after obtaining marketing approval.

If we experience any of a number of possible unforeseen events in connection with our clinical trials, potential marketing approval or commercialization of our product candidates could be delayed or prevented.

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval or commercialize our product candidates, including:

- clinical trials of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;

- the number of patients required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate or participants may drop out of these clinical trials at a higher rate than we anticipate;

- we may be unable to enroll a sufficient number of patients in our trials to ensure adequate statistical power to detect any statistically significant treatment effects;

- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;

- regulators, institutional review boards or independent ethics committees may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;

- we may have delays in reaching or fail to reach agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;

- we may have to suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the participants are being exposed to unacceptable health risks;

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- regulators, institutional review boards or independent ethics committees may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;

- the cost of clinical trials of our product candidates may be greater than we anticipate;

- the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate; or

- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators, institutional review boards or independent ethics committees to suspend or terminate the trials.

Our product development costs will increase if we experience delays in testing or marketing approvals. We do not know whether any preclinical tests or clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant preclinical or clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates, allow our competitors to bring products to market before we do, or impair our ability to successfully commercialize our product candidates, and so may harm our business and results of operations.

Our conclusions regarding the activity and potential efficacy of ataluren in our completed Phase 2b clinical trial of ataluren for the treatment of nmDMD and in our completed Phase 3 clinical trial of ataluren for nmCF are based on retrospective analyses of the results of these trials and nominal p-values, which are generally considered less reliable indicators of efficacy than pre-specified analyses and adjusted p-values.

After determining that we did not achieve the primary efficacy endpoint with the pre-specified level of statistical significance in our completed Phase 2b clinical trial of ataluren for the treatment of nmDMD and in our completed Phase 3 clinical trial of ataluren for nmCF, we performed retrospective and subgroup analyses that we believe provide strong support for concluding that ataluren was active and showed clinically meaningful improvements over placebo in these trials. Although we believe that these additional analyses of the results of these trials were warranted, a retrospective analysis performed after unblinding trial results can result in the introduction of bias if the analysis is inappropriately tailored or influenced by knowledge of the data and actual results. Some of our favorable statistical data from these trials also are based on nominal p-values that reflect only one particular comparison when more than one comparison is possible, such as when two active treatments are compared to placebo or when two or more subgroups are analyzed. Nominal p-values cannot be compared to the benchmark p-value of 0.05 to determine statistical significance without being adjusted for the testing of multiple dose groups or analyses of subgroups.

Because of these limitations, regulatory authorities typically give greater weight to results from pre-specified analyses and adjusted p-values and less weight to results from post-hoc, retrospective analyses and nominal p-values. This diminishes the likelihood that the EMA will grant conditional approval of ataluren for either of these indications and, even if we successfully complete our confirmatory Phase 3 clinical trials, could negatively impact the evaluation by the EMA or the FDA of our anticipated applications for full marketing approval for ataluren for the applicable indication.

If our request for re-examination of the negative opinion on our MAA for the grant of conditional approval of ataluren for the treatment of nmDMD is not successful in changing the negative opinion, our potential commercialization of this product candidate and receipt of related revenues will be delayed.

On January 24, 2014, the EMA s Committee for Medicinal Products for Human Use, or CHMP, adopted a negative opinion on our MAA for conditional approval of ataluren for nmDMD. We have requested a re-examination of the opinion, including the submission of a document explaining the basis for our request for re-examination. The CHMP has 60 calendar days to consider the request for re-examination. If the re-examination does not successfully change the negative opinion, we will be required to submit a new MAA at a later date and our potential commercialization of this product candidate and the receipt of related revenues will be delayed.

There is substantial risk that the re-examination request and any conditional approval for which we have applied will not be successful until we have completed a confirmatory Phase 3 clinical trial for this indication, which would delay the potential commercialization of this product candidate and our receipt of related revenues. We expect to face similar risks if we apply for conditional approval of ataluren for the treatment of nmCF prior to completing a confirmatory Phase 3 clinical trial for this indication. In particular, conditional approval of ataluren for the treatment of nmCF will depend on the EMA s assessment of the relative risks and benefits of conditional approval and our ability to provide comprehensive clinical data from a post-approval confirmatory trial.

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Our confirmatory Phase 3 clinical trials of ataluren for nmDMD and nmCF, even if successfully completed, may not be sufficient for approval of ataluren for the applicable indication.

It is possible that the EMA or the FDA may not consider the results of our confirmatory Phase 3 clinical trials of ataluren for nmDMD or nmCF, once completed and even if successful, to be sufficient for approval of ataluren for such indication. The FDA typically requires two adequate and well-controlled pivotal clinical trials to support marketing approval of a product candidate for a particular indication. The EMA or the FDA could determine that the results of our trials are not sufficiently robust, are subject to confounding factors or are not adequately supported by other trial endpoints. In addition, although we have had discussions with the FDA regarding our proposed confirmatory Phase 3 clinical trial of ataluren for the treatment of nmCF, the FDA may not consider our proposed trial design acceptable. For example, in 2012, the FDA indicated that in its view the data from our completed Phase 3 clinical trial and other data from our development program in cystic fibrosis do not by themselves support an NDA submission and, consequently, the FDA informed us that additional clinical data would be required to establish the evidence necessary to support eventual filing of an NDA for the use of ataluren to treat nmCF. We had additional interactions with the FDA in 2013 regarding the clinical development design which would have the potential to support an NDA, but we did not achieve a consensus between the EMA and FDA views. While we have incorporated feedback from the FDA into our proposed trial design, we believe that certain key recommendations from the FDA are not appropriate. Two of the key recommendations that we are in disagreement with are the designation of FEV_1, CF pulmonary exacerbations and body mass index as three co-primary endpoints for the trial and a suggested three-year trial duration. We plan to make FEV_1 the primary endpoint with CF pulmonary exacerbations and body mass index key secondary endpoints, which is consistent with other clinical trials currently ongoing in cystic fibrosis and FDA s earlier recommendation. Additionally, we believe that extending the study duration to three years would result in a number of complications that would ultimately limit the robustness of the data and conclusions that could be drawn from the results. Based on these interactions, we nonetheless intend to proceed with our Phase 3 trial of ataluren in nmCF in the first half of 2014 consistent with feedback from the EMA on our trial design. If the FDA does not consider our proposed trial designs acceptable, we may need to conduct more than one confirmatory clinical trial and our ability to receive marketing approval for this indication could be delayed or prevented.

Because we are developing product candidates for the treatment of diseases in which there is little clinical experience and, in some cases, using new endpoints or methodologies, there is increased risk that the outcome of our clinical trials will not be favorable.

There are no marketed therapies approved to treat the underlying cause of nmDMD or nmCF. In addition, there has been limited historical clinical trial experience generally for the development of drugs to treat either of these diseases. As a result, the design and conduct of clinical trials for these diseases, particularly for drugs to address the underlying nonsense mutations causing these diseases in some subsets of patients, is subject to increased risk.

Prior to our conducting the Phase 2b clinical trial of ataluren for nmDMD, there was no established precedent for an appropriate trial design to evaluate the efficacy of ataluren for nmDMD, and little clinical experience in the methodologies used to analyze the resulting data. Although we believe that we now understand the issues of concern with the pre-specified statistical analyses of our Phase 2b clinical trial results, and that we have designed our confirmatory Phase 3 clinical trial of ataluren for nmDMD in an appropriate fashion, we may nonetheless experience similar or other unknown complications with our confirmatory Phase 3 clinical trial because of the limited clinical experience in this indication. As a result, we may not achieve the pre-specified endpoint with statistical significance in our confirmatory Phase 3 clinical trial, which would make approval of ataluren for this indication unlikely. Among other endpoints in our confirmatory Phase 3 clinical trial of ataluren for nmDMD, the trial protocol includes two secondary endpoints that have not been used previously as outcome measures in published therapeutic clinical trials of nmDMD. These endpoints, in particular, may produce results that are unpredictable or inconsistent with other trial results.

With regard to nmCF, we believe that we now understand subgroup effects that we observed in our completed Phase 3 clinical trial and that we have designed our confirmatory Phase 3 clinical trial of ataluren for nmCF to take these effects into account. However, we may nonetheless

experience unknown complications with our confirmatory Phase 3 clinical trial. As a result, we may not achieve the pre-specified endpoint with statistical significance in our confirmatory Phase 3 clinical trial, which would make approval of ataluren for this indication unlikely.

If we experience delays or difficulties in the enrollment of patients in our clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for our product candidates, including our confirmatory Phase 3 clinical trials of ataluren, if we are unable to locate and enroll a sufficient number of eligible patients to participate in these trials. For example, both nmDMD and nmCF are characterized by relatively small patient populations, which could result in slow enrollment of clinical trial participants. In addition, our competitors have ongoing clinical trials for product candidates that could be competitive with our product candidates. As a result, potential clinical trial sites may elect to dedicate their limited resources to participation in our competitors clinical trials and not ours, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors product candidates.

Patient enrollment is affected by other factors including:

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- severity of the disease under investigation;
- eligibility criteria for the study in question;
- perceived risks and benefits of the product candidate under study;
- efforts to facilitate timely enrollment in clinical trials;
- patient referral practices of physicians;
- the ability to monitor patients adequately during and after treatment; and
- proximity and availability of clinical trial sites for prospective patients.

Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which would cause the value of the company to decline and limit our ability to obtain additional financing. Our inability to enroll a sufficient number of patients in our confirmatory Phase 3 clinical trials of ataluren or any of our other clinical trials would result in significant delays or may require us to abandon one or more clinical trials altogether.

If serious adverse or inappropriate side effects are identified during the development of ataluren or any other product candidate, we may need to abandon or limit our development of that product candidate.

All of our product candidates are in clinical or preclinical development and their risk of failure is high. It is impossible to predict when or if any of our product candidates will prove effective or safe in humans or will receive regulatory approval. If our product candidates are associated with undesirable side effects or have characteristics that are unexpected, we may need to abandon their development or limit development to certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. Many compounds that initially showed promise in clinical or earlier stage testing have later been found to cause side effects that prevented further development of the compound.

For example, although we did not observe a pattern of liver enzyme elevations in our Phase 2 or Phase 3 clinical trials of ataluren, we did observe modest elevations of liver enzymes in some subjects in one of our Phase 1 clinical trials. These elevated enzyme levels did not require cessation of ataluren administration, and enzyme levels typically normalized after completion of the treatment phase. We did not observe any increases in bilirubin, which can be associated with serious harm to the liver, in the Phase 1 clinical trial.

In addition, in our completed Phase 3 clinical trial of ataluren for the treatment of nmCF, five adverse events in the ataluren arm of the trial that involved the renal system led to discontinuation. As compared to the placebo group, the ataluren treatment arm also had a higher incidence of adverse events of creatinine elevations, which can be an indication of impaired kidney function. In the ataluren treatment arm, more severe clinically meaningful creatinine elevations were reported in conjunction with cystic fibrosis pulmonary exacerbations. These creatinine elevations were associated with concomitant treatment with antibiotics associated with impaired kidney functions, such as aminoglycosides or vancomycin. This led to the subsequent prohibition of concomitant use of ataluren and these antibiotics, which was successful in addressing this issue in the clinical trial. If patients in the ataluren arm of a confirmatory Phase 3 clinical trial for the treatment of nmCF exhibit clinically meaningful creatinine elevations, the EMA or the FDA might not approve ataluren for this indication or could require that we instruct physicians to frequently monitor patients for these abnormalities or impose other conditions, which may be an impediment to the use of ataluren because of concerns related to its safety and convenience.

Further, in 2011, we suspended development of our oncology product candidate PTC299, an inhibitor of production of vascular endothelial growth factor, or VEGF, in part because of two cases of severe liver toxicity that occurred in our clinical trials of PTC299 and in part because of our limited resources available at that time.

Our focus on the discovery and development of product candidates that target post-transcriptional control processes is unproven, and we do not know whether we will be able to develop any products of commercial value.

Our scientific approach focuses on the discovery and development of product candidates that target post-transcriptional control processes. While a number of commonly used drugs and a growing body of research validate the importance of post-transcriptional control processes in the origin and progression of a number of diseases, no existing drugs have been specifically designed to alter post-transcriptional control processes in the same manner as ataluren or our other product candidates. As a result, our focus on targeting these processes may not result in the discovery and development of commercially viable drugs that safely and effectively treat genetic disorders or other diseases. In addition, even if we are successful in developing and receiving regulatory approval for a commercially viable drug that treats an approved indication by targeting a particular post-transcriptional control process, we may not

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receive regulatory approval for additional indications. Furthermore, we may not receive regulatory approval for product candidates that target different post-transcriptional control processes. If we fail to develop and commercialize viable drugs, we will not achieve commercial success.

Even if ataluren or any other product candidate receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success.

If ataluren or any of our other product candidates receive marketing approval, they may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. If these products do not achieve an adequate level of acceptance, we may not generate significant product revenues or any profits from operations. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy and potential advantages compared to alternative treatments;
- the prevalence and severity of any side effects;
- the ability to offer our product candidates for sale at competitive prices;
- convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support;
- sufficient third-party coverage or reimbursement; and
- any restrictions on concomitant use of other medications, such as a restriction that nmCF patients taking ataluren not also use chronic inhaled aminoglycoside antibiotics.

Our ability to negotiate, secure and maintain third-party coverage and reimbursement may be affected by political, economic and regulatory developments in the United States, the European Union and other jurisdictions. Governments continue to impose cost containment measures, and third-party payors are increasingly challenging prices charged for medicines and examining their cost effectiveness, in addition to their safety and efficacy. These and other similar developments could significantly limit the degree of market acceptance of ataluren or any of our other product candidates that receive marketing approval.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may not be successful in commercializing ataluren or any other product candidate if and when they are approved.

We do not have a sales or marketing infrastructure and have no experience in the sale or marketing of pharmaceutical products. To achieve commercial success for any approved product, we must either develop a sales and marketing organization or outsource these functions to third parties. We plan to establish our own sales and marketing capabilities and promote ataluren in the European Union and the United States with a targeted sales force if and when it is approved. There are risks involved with establishing our own sales and marketing capabilities and entering into arrangements with third parties to perform these services. For example, recruiting and training a sales force is expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our products on our own include:

- our inability to recruit, train and retain adequate numbers of effective sales and marketing personnel;

- the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to prescribe any future products;

- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and

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- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we enter into arrangements with third parties to perform sales and marketing services, our product revenues or the profitability of these product revenues to us are likely to be lower than if we were to market and sell any products that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell and market our product candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales and marketing capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do.

The development and commercialization of new drug products is highly competitive. We face competition with respect to our current product candidates and any products we may seek to develop or commercialize in the future from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide.

Currently available treatments for Duchenne muscular dystrophy are only palliative. Although there are currently no marketed therapeutics approved to treat the underlying cause of nmDMD, there are other biopharmaceutical companies, including Prosensa Therapeutics and Sarepta Therapeutics, that are developing treatments for Duchenne muscular dystrophy based on a different scientific approach known as exon-skipping. Summit Corporation also has a product candidate in early clinical development designed to increase the production of the protein utrophin, which is functionally similar to dystrophin, to treat Duchenne muscular dystrophy. We believe that ataluren is the only product candidate in clinical trials that is designed to treat the underlying cause of nmDMD by restoring dystrophin activity.

There are a number of large pharmaceutical and biotechnology companies that currently market and sell products to manage the symptoms and side effects of cystic fibrosis. These products include Chiron Corporation s TOBI and Genentech, Inc. s Pulmozyme. Although there are currently no marketed products approved to treat the underlying cause of nmCF, Vertex Pharmaceuticals CFTR potentiator drug Kalydeco is approved by the FDA as a treatment for cystic fibrosis in patients six years of age and older who have a type of mutation in the CFTR gene known as a gating mutation. Vertex Pharmaceuticals also is developing two other product candidates for the treatment of cystic fibrosis in patients who have a type of mutation in the CFTR gene known as a process block mutation. We believe that ataluren is the only product candidate in clinical trials that is designed to treat the underlying cause of nmCF by restoring CFTR activity.

Potential competitors also include academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization. Our competitors may develop products that are more effective, safer, more convenient or less costly than any that we are developing or that would render our product candidates obsolete or non-competitive. Our competitors may also obtain marketing approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market.

We believe that many competitors are attempting to develop therapeutics for the target indications of our product candidates, including academic institutions, government agencies, public and private research organizations, large pharmaceutical companies and smaller more focused companies.

Many of our competitors may have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller and other early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to or necessary for our programs.

Even if we are able to commercialize ataluren or any other product candidate that we develop, the product may become subject to unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives, which would harm our business.

The regulations and practices that govern marketing approvals, pricing, coverage and reimbursement for new drug products vary widely from country to country. Current and future legislation may significantly change the approval requirements in ways that could involve additional costs and cause delays in obtaining approvals. Some countries require approval of the sale price of a drug before it

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can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, and negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates, even if our product candidates obtain marketing approval.

Our ability to commercialize ataluren or any other product candidate successfully also will depend in part on the extent to which reimbursement for these products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Government authorities and other third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels. A primary trend in the E.U. and U.S. healthcare industries and elsewhere is cost containment. Government authorities and other third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. We cannot be sure that coverage and reimbursement will be available for ataluren or any other product that we commercialize and, if coverage and reimbursement are available, the level of reimbursement. Reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. Obtaining reimbursement for ataluren may be particularly difficult because of the higher prices typically associated with drugs directed at smaller populations of patients. In addition, third-party payors are likely to impose strict requirements for reimbursement of a higher priced drug. If reimbursement is not available or is available only to limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval.

There may be significant delays in obtaining reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the applicable regulatory authority. Moreover, eligibility for reimbursement does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs, and may be incorporated into existing payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. In the United States, third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own reimbursement policies. In the European Union, reference pricing systems and other measures may lead to cost containment and reduced prices. Our inability to promptly obtain coverage and profitable payment rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure related to the testing of our product candidates in human clinical trials and will face an even greater risk if we commercially sell any products that we may develop. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- reduced resources of our management to pursue our business strategy;

- decreased demand for any product candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- increased insurance costs, or an ability to maintain appropriate insurance coverage;
- substantial monetary awards to trial participants or patients;
- loss of revenue; and

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- the inability to commercialize any products that we may develop.

We have product liability insurance that covers our clinical trials up to a $5.0 million annual aggregate limit and subject to a per claim deductible. The amount of insurance that we currently hold may not be adequate to cover all liabilities that we may incur. We will need to increase our insurance coverage when and if we begin commercializing ataluren or any other product candidate that receives marketing approval. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations currently, and may in the future, involve the use of hazardous and flammable materials, including chemicals and medical and biological materials, and produce hazardous waste products. Even if we contract with third parties for the disposal of these materials and wastes, we cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials or disposal of hazardous wastes, we could be held liable for any resulting damages, and any liability could exceed our resources.

Although we maintain workers compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We also maintain liability insurance for some of these risks, but our policy excludes pollution and has a coverage limit of $5.0 million.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we focus on research programs and product candidates for specific indications. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. For example, we initiated separate Phase 2 clinical trials of ataluren for the treatment of hemophilia in 2009 and the metabolic disorder methylmalomic acidemia in 2010, but then suspended these clinical trials to focus on the development of ataluren for nmDMD and nmCF when we found variability in the assays used in these trials and preliminary data from these trials did not indicate definitive evidence of activity. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable products.

We have based our research and development efforts on small-molecule drugs that target post-transcriptional control processes. Notwithstanding our large investment to date and anticipated future expenditures in proprietary technologies, including GEMS and our alternative splicing technology, which we use in the discovery of these molecules, we have not yet developed, and may never successfully develop, any marketed drugs using this approach. As a result of pursuing the development of product candidates using our proprietary technologies, we may fail to develop product candidates or address indications based on other scientific approaches that may offer greater commercial potential or for which there is a greater likelihood of success. Research programs to identify new product candidates require substantial technical, financial and human resources. These research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development.

If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

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Risks Related to our Dependence on Third Parties

Use of third parties to manufacture our product candidates may increase the risk that we will not have sufficient quantities of our product candidates or products or such quantities at an acceptable cost, which could delay, prevent or impair our development or commercialization efforts.

We do not own or operate manufacturing facilities for the production of clinical or commercial supplies of our product candidates. We have limited personnel with experience in drug manufacturing and lack the resources and the capabilities to manufacture any of our product candidates on a clinical or commercial scale. We currently rely on third parties for supply of the active pharmaceutical ingredients in our product candidates. Our strategy is to outsource all manufacturing of our product candidates and products to third parties.

We do not currently have any agreements with third-party manufacturers for the long-term commercial supply of any of our product candidates. We obtain our supply of the bulk drug substance for ataluren from two third-party manufacturers. We engage a separate manufacturer to provide fill and finish services for the finished product that we are using in our clinical trials of ataluren. We may be unable to conclude agreements for commercial supply with third-party manufacturers, or may be unable to do so on acceptable terms.

Even if we are able to establish and maintain arrangements with third-party manufacturers, reliance on third-party manufacturers entails additional risks, including:

- reliance on the third party for regulatory compliance and quality assurance;
- the possible breach of the manufacturing agreement by the third party;
- the possible misappropriation of our proprietary information, including our trade secrets and know-how; and
- the possible termination or nonrenewal of the agreement by the third party at a time that is costly or inconvenient for us.

Third-party manufacturers may not be able to comply with current good manufacturing practice, or cGMP, regulations or similar regulatory requirements outside the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our product candidates.

Our product candidates and any products that we may develop may compete with other product candidates and products for access to manufacturing facilities. There are a limited number of manufacturers that operate under cGMP regulations and that might be capable of manufacturing for us.

If the third parties that we engage to manufacture product for our preclinical tests and clinical trials should cease to continue to do so for any reason, we likely would experience delays in advancing these trials while we identify and qualify replacement suppliers and we may be unable to obtain replacement supplies on terms that are favorable to us. In addition, if we are not able to obtain adequate supplies of our product candidates or the drug substances used to manufacture them, it will be more difficult for us to develop our product candidates and compete effectively.

Our current and anticipated future dependence upon others for the manufacture of our product candidates may adversely affect our future profit margins and our ability to develop product candidates and commercialize any products that receive regulatory approval on a timely and competitive basis.

We rely on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of such trials.

We do not independently conduct clinical trials for our product candidates. We rely on third parties, such as contract research organizations, clinical data management organizations, medical institutions and clinical investigators, to perform this function. Any of these third parties may terminate their engagements with us at any time. If we need to enter into alternative arrangements, it would delay our product development activities.

Our reliance on these third parties for clinical development activities reduces our control over these activities but does not relieve us of our responsibilities. For example, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as Good Clinical Practices, or GCP, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. We also are required to register ongoing clinical trials and post the results of completed clinical trials on a government-sponsored database, ClinicalTrials.gov, within certain timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions. Similar GCP and transparency requirements apply in the European Union. Failure to comply with such requirements, including with respect to clinical trials conducted outside the European Union, can also lead regulatory authorities to refuse to take into account clinical trial data submitted as part of an MAA.

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For example, in the first half of 2013 inspectors acting at the request of the EMA conducted GCP inspections of selected clinical sites from our completed Phase 2b clinical trial of ataluren for the treatment of nmDMD and our clinical trial site relating to our pending MAA for conditional approval of ataluren for the treatment of nmDMD. Following these inspections, we received inspection reports containing a combination of critical and major findings. These findings relate to waivers we granted to admit patients to our Phase 2b clinical trial of ataluren for the treatment of nmDMD in advance of formal approval of protocol amendments that would have established their eligibility for the trial, as well as our oversight of our trial sites and the completeness or sufficiency of clinical trial documentation. In response to these findings, we described to the EMA the enhanced internal procedures and controls we have implemented, and the internal quality assurance department we have established, since the conclusion of our Phase 2b clinical trial of ataluren for the treatment of nmDMD. In addition, we proposed corrective action plans to address the inspectors specific findings. If we do not meet our commitment to the corrective actions we proposed to the EMA, we may face additional consequences, including rejection of data or other direct action by national regulatory authorities, which could require us to conduct additional clinical trials or other supportive studies to obtain EMA approval of ataluren for the treatment of nmDMD.

Furthermore, third parties that we rely on for our clinical development activities may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we will not be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates. Our product development costs will increase if we experience delays in testing or obtaining marketing approvals.

We also rely on other third parties to store and distribute drug supplies for our clinical trials. Any performance failure on the part of our distributors could delay clinical development or marketing approval of our product candidates or commercialization of our products, producing additional losses and depriving us of potential product revenue.

We currently depend, and expect to continue to depend, on collaborations with third parties for the development and commercialization of some of our product candidates. If those collaborations are not successful, we may not be able to capitalize on the market potential of these product candidates.

For each of our product candidates, we plan to evaluate the merits of retaining commercialization rights for ourselves or entering into selective collaboration arrangements with leading pharmaceutical or biotechnology companies, such as our collaborations with Roche and the SMA Foundation, for our spinal muscular atrophy program. We generally plan to seek collaborators for the development and commercialization of product candidates that have high anticipated development costs, are directed at indications for which a potential collaborator has a particular expertise, or involve markets that require a large sales and marketing organization to serve effectively. Our likely collaborator(s) for any marketing, distribution, development, licensing or broader collaboration arrangements may include: large and mid-size pharmaceutical companies, regional and national pharmaceutical companies and/or biotechnology companies.

We will have limited control over the amount and timing of resources that our collaborators dedicate to the development or commercialization of our product candidates. Our ability to generate revenues from these arrangements will depend on our collaborators desire and abilities to successfully perform the functions assigned to them in these arrangements. In particular, the successful development of a product candidate from our spinal muscular atrophy program will initially depend on the success of our collaborations with the SMA Foundation and Roche, including whether Roche pursues clinical development of any compounds identified under the collaborations.

Collaborations involving our product candidates, including our collaborations with the SMA Foundation and Roche, pose the following risks to us:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;

- collaborators may not pursue development and commercialization of our product candidates or may elect not to continue or renew development or commercialization programs, based on clinical trial results, changes in the collaborators strategic focus or available funding, or external factors such as an acquisition that diverts resources or creates competing priorities;

- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;

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- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our products or product candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than ours;

- a collaborator with marketing and distribution rights to one or more products may not commit sufficient resources to the marketing and distribution of such product or products;

- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential litigation;

- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;

- disputes may arise between the collaborator and us as to the ownership of intellectual property arising during the collaboration;

- we may grant exclusive rights to our collaborators, which would prevent us from collaborating with others;

- disputes may arise between the collaborators and us that result in the delay or termination of the research, development or commercialization of our products or product candidates or that result in costly litigation or arbitration that diverts management attention and resources; and

- collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable product candidates.

Collaborators have terminated collaborations with us in the past. For example, in 2008, we entered into a collaboration with Genzyme Corporation for the development and commercialization of ataluren under which we granted to Genzyme rights to commercialize ataluren in all countries other than the United States and Canada. In 2011, we restructured the collaboration and regained worldwide rights to ataluren, with Genzyme obtaining an option to commercialize ataluren in indications other than nmDMD outside the United States and Canada. In 2012, this option expired without being exercised by Genzyme and the collaboration terminated.

Collaboration agreements may not lead to development or commercialization of product candidates in the most efficient manner or at all. If a collaborator of ours were to be involved in a business combination, the continued pursuit and emphasis on our product development or commercialization program could be delayed, diminished or terminated.

If we are not able to establish additional collaborations, we may have to alter our development and commercialization plans.

Our product development programs and the potential commercialization of our product candidates will require substantial additional cash to fund expenses. For some of our product candidates, we may decide to collaborate further with pharmaceutical and biotechnology companies for the development and potential commercialization of those product candidates.

We face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator s resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator s evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by regulatory authorities, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to patients, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge; and industry and market conditions generally. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our product candidate. We may also be restricted under future license agreements from entering into agreements on certain terms with potential collaborators. Collaborations are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators.

We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all. If we are unable to do so, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures

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to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our product candidates or bring them to market and generate product revenue.

If we fail to comply with our obligations in our intellectual property licenses and funding arrangements with third parties, we could lose rights that are important to our business.

We are a party to a number of license agreements and expect to enter into additional licenses in the future. Our existing licenses impose, and we expect that future licenses will impose, various diligence, milestone payment, royalty, insurance and other obligations on us. If we fail to comply with these obligations, the licensor may have the right to terminate the license, in which event we might not be able to market any product that is covered by these agreements, which could materially adversely affect the value of the product candidate being developed under such license agreement. Termination of these license agreements or reduction or elimination of our licensed rights may result in our having to negotiate new or reinstated licenses with less favorable terms, or cause us to lose rights in important intellectual property or technology.

We have also received grant funding for some of our development programs from philanthropic organizations and patient advocacy groups pursuant to agreements that impose development and commercialization diligence obligations on us. If we fail to comply with these obligations, the applicable organization could require us to grant to the organization exclusive rights under certain of our intellectual property, which could materially adversely affect the value to us of product candidates covered by that intellectual property even if we are entitled to a share of any consideration received by such organization in connection with any subsequent development or commercialization of the product candidates.

Some of our patented technology was developed with U.S. federal government funding. When new technologies are developed with U.S. government funding, the government obtains certain rights in any resulting patents, including a nonexclusive license authorizing the government to use the invention for non-commercial purposes. These rights may permit the government to disclose our confidential information to third parties and to exercise march-in rights to use or allow third parties to use our patented technology. The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the U.S. government-funded technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations or to give preference to U.S. industry. In addition, U.S. government-funded inventions must be reported to the government and U.S. government funding must be disclosed in any resulting patent applications. Furthermore, our rights in such inventions are subject to government license rights and certain restrictions on manufacturing products outside the United States.

Risks Related to our Intellectual Property

If we are unable to obtain and maintain patent protection for our technology and products, or if the scope of the patent protection is not sufficiently broad, our competitors could develop and commercialize technology and products similar or identical to ours, and our ability to successfully commercialize our technology and products may be adversely affected.

Our success depends in large part on our ability to obtain and maintain patent protection in the United States and other countries with respect to our proprietary technology and products. We seek to protect our proprietary position by filing patent applications in the United States and in certain foreign jurisdictions related to our novel technologies and product candidates that are important to our business. This process is

expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. Moreover, if we license technology or product candidates from third parties in the future, these license agreements may not permit us to control the preparation, filing and prosecution of patent applications, or to maintain or enforce the patents, covering this intellectual property. These agreements could also give our licensors the right to enforce the licensed patents without our involvement, or to decide not to enforce the patents at all. Therefore, in these circumstances, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection.

The laws of foreign countries may not protect our rights to the same extent as the laws of the United States. For example, European patent law restricts the patentability of methods of treatment of the human body more than U.S. law does. In addition, we may not

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pursue or obtain patent protection in all major markets. Assuming the other requirements for patentability are met, currently, the first to file a patent application is generally entitled to the patent. However, prior to March 16, 2013, in the United States, the first to invent was entitled to the patent. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot know with certainty whether we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions.

Moreover, we may be subject to a third party preissuance submission of prior art to the U.S. Patent and Trademark Office or become involved in opposition, derivation, reexamination, inter partes review, post grant review, interference proceedings or other patent office proceedings or litigation, in the United States or elsewhere, challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights. In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates.

Even if our patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our owned or licensed patents by developing similar or alternative technologies or products in a non-infringing manner. In addition, other companies may attempt to circumvent any regulatory data protection or market exclusivity that we obtain under applicable legislation, which may require us to allocate significant resources to preventing such circumvention. Legal and regulatory developments in the European Union and elsewhere may also result in clinical trial data submitted as part of an MAA becoming publicly available. Such developments could enable other companies to circumvent our intellectual property rights and use our clinical trial data to obtain marketing authorizations in the European Union and in other jurisdictions. Such developments may also require us to allocate significant resources to prevent other companies from circumventing or violating our intellectual property rights. Our attempts to prevent third parties from circumventing our intellectual property and other rights may ultimately be unsuccessful. We may also fail to take the required actions or pay the necessary fees to maintain our patents.

The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and our owned and licensed patents may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in loss of exclusivity or freedom to operate or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our patents, trademarks, copyrights or other intellectual property. To counter infringement or unauthorized use, we may be required to file claims, which can be expensive and time consuming. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their intellectual property. In addition, in a patent infringement proceeding, a court may decide that a patent of ours is invalid or unenforceable, in whole or in part, construe the patent s claims narrowly or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability and the ability of our collaborators to develop, manufacture, market and sell our product candidates and use our proprietary technologies without infringing the intellectual property and other proprietary rights of third parties. There is considerable intellectual property litigation in the biotechnology and pharmaceutical industries, and we may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to our products and technology, including interference, derivation, inter partes review or post-grant review proceedings before the U.S. Patent and Trademark Office. The risks of being involved in such litigation and proceedings may also increase as our product candidates approach commercialization, and as we gain greater visibility as a public company. Third parties may assert infringement claims against us based on existing or future intellectual property rights. We may not be aware of all such intellectual property rights potentially relating to our product candidates. For example, we have not conducted a recent freedom-to-operate search or analysis for ataluren. Any freedom-to-operate search or analysis previously conducted may not have uncovered all relevant patents and patent

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applications, and there may be pending or future patent applications that, if issued, would block us from commercializing ataluren. Thus, we do not know with certainty whether ataluren, any other product candidate, or our commercialization thereof, does not and will not infringe any third party s intellectual property.

If we are found to infringe a third party s intellectual property rights, or in order to avoid or settle litigation, we could be required to obtain a license to continue developing and marketing our products and technology. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us, and could require us to make substantial payments. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages, including treble damages and attorneys fees if we are found to have willfully infringed a patent or other intellectual property right. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

For example, it is possible that one or more third parties might bring a patent infringement or other legal proceeding against us regarding ataluren. We are aware of an issued U.S. patent and international patent applications that purport to disclose or contain claims to chemical scaffolds that are sufficiently broad that they could be read to encompass ataluren, even though neither the issued U.S. patent nor any of the international patent applications specifically discloses ataluren. In order to successfully challenge the validity of any issued U.S. patent, we would need to overcome a presumption of validity. This burden is a high one requiring us to present clear and convincing evidence as to the invalidity of these claims. There is no assurance that a court would find these claims to be invalid. In addition, we believe that our testing of ataluren in clinical trials for the purpose of seeking FDA approval would be a valid defense against any infringement claims in the United States based on the availability of a statutory exemption. However, there can be no assurance that our interpretation of the statutory exemption would be upheld, and the statutory exemption would only cover our preclinical research activities, and not the commercialization of ataluren.

We may be subject to claims by third parties asserting that we or our employees have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such employee s former employer. Litigation may be necessary to defend against these claims.

In addition, while we typically require our employees and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own. Our and their assignment agreements may not be self-executing or may be breached, and we may be forced to bring claims against third parties, or defend claims they may bring against us, to determine the ownership of what we regard as our intellectual property.

If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to management.

Intellectual property litigation could cause us to spend substantial resources and could distract our personnel from their normal responsibilities.

Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Such litigation or proceedings could substantially increase our operating losses and reduce the resources available for development, sales, marketing or distribution activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace.

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If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to seeking patents for some of our technology and products, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. However, we cannot guarantee that we have executed these agreements with each party that may have or have had access to our trade secrets or that the agreements we have executed will provide adequate protection. Any party with whom we have executed such an agreement may breach that agreement and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be obtained or independently developed by a competitor, our competitive position would be harmed.

We have not yet registered our trademarks in all of our potential markets, and failure to secure those registrations could adversely affect our business.

Our trademark applications may not be allowed for registration, and our registered trademarks may not be maintained or enforced. During trademark registration proceedings, we may receive rejections. Although we are given an opportunity to respond to those rejections, we may be unable to overcome such rejections. In addition, in the U.S. Patent and Trademark Office and in comparable agencies in many foreign jurisdictions, third parties are given an opportunity to oppose pending trademark applications and to seek to cancel registered trademarks. Opposition or cancellation proceedings may be filed against our trademarks, and our trademarks may not survive such proceedings. If we do not secure registrations for our trademarks, we may encounter more difficulty in enforcing them against third parties than we otherwise would.

Risks Related to Regulatory Approval of our Product Candidates

If we are not able to obtain, or if there are delays in obtaining, required regulatory approvals, we will not be able to commercialize our product candidates, and our ability to generate revenue will be materially impaired.

Our product candidates, including ataluren, and the activities associated with their development and commercialization, including their design, testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, are subject to comprehensive regulation by the FDA and by comparable authorities in other countries. Failure to obtain marketing approval for a product candidate will prevent us from commercializing the product candidate. We have not received approval to market ataluren or any of our other product candidates from regulatory authorities in any jurisdiction. In 2011, we submitted a new drug application, or NDA, to the FDA for approval of ataluren for the treatment of nmDMD. The FDA refused to file this NDA on the grounds that the NDA did not contain substantial evidence of effectiveness based on the single placebo controlled Phase 2b clinical trial conducted to date.

We have only limited experience in filing and supporting the applications necessary to obtain marketing approvals for product candidates and expect to rely on third-party contract research organizations to assist us in this process. Securing marketing approval requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the product candidate s safety and efficacy. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. Regulatory authorities may determine that ataluren or any of our other product candidates are not effective or only moderately effective, or have undesirable or unintended side effects, toxicities, safety profiles or other characteristics that preclude us from obtaining marketing approval or that prevent or limit commercial use.

The process of obtaining marketing approvals is expensive, may take many years, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. Changes in marketing approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application, may cause delays in the approval or rejection of an application. Regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data are insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a product candidate. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable.

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We may not be able to obtain orphan drug exclusivity for our product candidates. If our competitors are able to obtain orphan drug exclusivity for their products that are the same drug as our product candidates, or can be classified as a similar medicinal product within the meaning of E.U. law, we may not be able to have competing products approved by the applicable regulatory authority for a significant period of time.

Regulatory authorities in some jurisdictions, including the European Union and the United States, may designate drugs for relatively small patient populations as orphan drugs. We have obtained orphan drug designations from the EMA and from the FDA for ataluren for the treatment of nmDMD and nmCF. Generally, if a product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the product is entitled to a period of market exclusivity, which, subject to certain exceptions, precludes the EMA from accepting another marketing application for a similar medicinal product or the FDA from approving another marketing application for the same drug for the same indication for that time period. The applicable market exclusivity period is ten years in the European UnioMARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 10.25pt; MARGIN-RIGHT: 0pt" align="right">22,079

18,705

GECAS

49,455

47,189

(32)

Capital Finance 2008 revenues increased by 1%, and net earnings decreased 29%, compared with 2007. Revenues in 2008 and 2007 included $4.4 billion and $0.5 billion from acquisitions, respectively, and in 2008 were benefited by $0.1 billion as a result of dispositions. Revenues in 2008 also decreased $3.3 billion as a result of organic revenue declines ($4.5 billion), partially offset by the weaker U.S. dollar ($1.2 billion). Net earnings decreased by $3.6 billion in 2008, resulting from core declines ($3.5 billion), including an increase of $1.9 billion in the provision for losses on financing receivables, lower investment income ($0.6 billion) and lower securitization income ($0.4 billion), offset by acquisitions ($0.5 billion), the weaker U.S. dollar ($0.3 billion) and dispositions ($0.1 billion). Net earnings included mark-to-market losses and impairments ($1.4 billion), partially offset by increased tax benefits from lower-taxed earnings from global operations ($0.7 billion) and Genpact mark-to-market gains ($0.2 billion).

Capital Finance 2007 revenues and net earnings both increased 18%, compared with 2006. Revenues in 2007 included $3.5 billion from acquisitions and were reduced by $2.7 billion as a result of dispositions. Revenues in 2007 also increased $9.1 billion as a result of organic revenue growth ($6.8 billion) and the weaker U.S. dollar ($2.3 billion). The increase in net earnings resulted primarily from core growth ($1.0 billion), higher securitization income ($0.4 billion) and the weaker U.S. dollar ($0.3 billion). Core growth included $0.5 billion representing the total year’s tax benefit on the disposition of our investment in SES, growth in lower-taxed earnings from global operations ($0.4 billion) and the sale of part of our Garanti investment ($0.2 billion), partially offset by declines in fair value of retained interests in securitizations ($0.2 billion). See Corporate Items and Eliminations for a discussion of items not allocated to this segment.

Additional information about certain Capital Finance businesses follows.

CLL 2008 revenues decreased 2% and net earnings decreased 53% compared with 2007. Revenues in 2008 and 2007 included $1.8 billion and $0.2 billion, respectively, from acquisitions and in 2008 were reduced by $0.3 billion as a result of dispositions. Revenues in 2008 decreased $1.9 billion compared with 2007 as a result of organic revenue declines ($2.3 billion), partially offset by the weaker U.S. dollar ($0.5 billion). Net earnings decreased by $2.0 billion in 2008, resulting from core declines ($2.2 billion), including an increase of $0.5 billion in the provision for losses on financing receivables and lower investment income ($0.3 billion), partially offset by acquisitions ($0.4 billion) and the effect of the weaker U.S. dollar ($0.1 billion). Net earnings included mark-to-market losses and impairments ($0.8 billion), the absence of the effects of the 2007 tax benefit on the disposition of our investment in SES ($0.5 billion) and SES gains ($0.1 billion), partially offset by Genpact mark-to-market gains ($0.2 billion).

CLL 2007 revenues and net earnings increased 6% and 9%, respectively, compared with 2006. Revenues in 2007 and 2006 included $2.1 billion and $0.1 billion, respectively, from acquisitions, and in 2007 were reduced by $2.7 billion as a result of dispositions. Revenues in 2007 also increased $1.9 billion as a result of organic revenue growth ($1.2 billion) and the weaker U.S. dollar ($0.7 billion). The increase in net earnings resulted from acquisitions ($0.2 billion), core growth ($0.1 billion) and the weaker U.S. dollar ($0.1 billion), partially offset by dispositions ($0.1 billion). Core growth included $0.5 billion representing the total year’s tax benefit on the disposition of our investment in SES, partially offset by $0.2 billion of higher credit losses and $0.1 billion in charges related to mark-to-market adjustments to loans held-for-sale. Investment income included higher SES gains ($0.1 billion), offset by impairments of securitization retained interests ($0.1 billion).

GE Money 2008 revenues increased 1% and net earnings decreased 14% compared with 2007. Revenues for 2008 included $0.7 billion from acquisitions and $0.4 billion from the gain on sale of our Corporate Payment Services (CPS) business and were reduced by $0.2 billion from dispositions. Revenues in 2008 also decreased $0.6 billion compared with 2007 as a result of organic revenue declines ($1.2 billion), partially offset by the weaker U.S. dollar ($0.6 billion). The decrease in net earnings resulted primarily from core declines ($0.5 billion) and lower securitization income ($0.5 billion). The decreases were partially offset by the gain on the sale of our CPS business ($0.2 billion), the weaker U.S. dollar ($0.1 billion) and acquisitions ($0.1 billion). Core declines primarily resulted

from lower results in the U.S., reflecting the effects of higher delinquencies ($1.2 billion), partially offset by growth in lower-taxed earnings from global operations ($1.0 billion), including the decision to indefinitely reinvest, outside the U.S., prior-year earnings.

GE Money 2007 revenues and net earnings increased 27% and 32%, respectively, compared with 2006. Revenues in 2007 included $0.4 billion from acquisitions. Revenues in 2007 also increased $4.8 billion as a result of organic revenue growth ($3.5 billion) and the weaker U.S. dollar ($1.4 billion). The increase in net earnings resulted primarily from core growth ($0.3 billion), higher securitization income ($0.4 billion), the sale of part of our Garanti investment ($0.2 billion) and the weaker U.S. dollar ($0.2 billion). Core growth included growth in lower-taxed earnings from global operations ($0.3 billion), partially offset by lower results in the U.S., reflecting the effects of higher delinquencies ($0.4 billion).

Real Estate 2008 revenues decreased 5% and net earnings decreased 50% compared with 2007. Revenues for 2008 included $0.3 billion from acquisitions. Revenues in 2008 also decreased $0.7 billion compared with 2007 as a result of organic revenue declines ($0.8 billion), partially offset by the weaker U.S. dollar ($0.2 billion). Real Estate net earnings decreased $1.1 billion compared with 2007, primarily from a decline in net earnings from real estate equity investments ($1.2 billion), partially offset by an increase in net earnings from real estate lending. Net earnings from the sale of real estate equity investments in 2008 were lower as a result of increasingly difficult market conditions. In the normal course of our business operations, we sell certain real estate equity investments when it is economically advantageous for us to do so. However, as a result of deterioration in current and expected real estate market liquidity and macroeconomic trends, it is difficult to predict with certainty the level of future sales or sales prices.

Real Estate assets at December 31, 2008, increased $6.0 billion, or 8%, from December 31, 2007, including $12.1 billion, or 34%, attributable to an increase in real estate lending, partially offset by a $6.4 billion, or 16%, decline in real estate equity investments. During 2008, we sold real estate equity investment assets with a book value totaling $5.8 billion, which resulted in net earnings of $1.3 billion that were partially offset by losses, impairments and depreciation.

Real Estate 2007 revenues and net earnings increased 40% and 24%, respectively, compared with 2006. Revenues in 2007 included $0.3 billion from acquisitions. Revenues in 2007 also increased $1.8 billion as a result of organic revenue growth ($1.5 billion) and the weaker U.S. dollar ($0.2 billion). Real Estate net earnings increased 24% compared with 2006, primarily as a result of a $0.5 billion increase in net earnings from sales of real estate investments.

Real Estate assets at December 31, 2007, increased $25.5 billion, or 47%, from December 31, 2006, of which $12.6 billion was real estate investments, also up 47%. During 2007, we sold real estate assets with a book value totaling $7.0 billion, which resulted in net earnings of $2.1 billion.

Energy Financial Services 2008 revenues and net earnings increased 54% and 22%, respectively, compared with 2007. Revenues in 2008 and 2007 included $1.6 billion and $0.3 billion, respectively, from acquisitions. The increase in net earnings resulted primarily from core growth ($0.2 billion), partially offset by lower investment income ($0.1 billion).

Energy Financial Services 2007 revenues and net earnings increased 45% and 4%, respectively, compared with 2006. The increase in revenues resulted primarily from acquisitions ($0.6 billion) and organic revenue growth ($0.1 billion). The increase in net earnings resulted primarily from core growth.

GECAS 2008 revenues increased 1% and net earnings decreased 1% compared with 2007. The increase in revenues is primarily a result of organic revenue growth ($0.1 billion), partially offset by lower investment income. The decrease in net earnings resulted primarily from lower investment income, partially offset by core growth.

GECAS 2007 revenues and net earnings increased 11% and 3%, respectively, compared with 2006. The increase in revenues resulted primarily from organic revenue growth ($0.4 billion) and acquisitions ($0.1 billion). The increase in net earnings resulted primarily from core growth.

Consumer & Industrial revenues decreased 7%, or $0.9 billion, to $11.7 billion in 2008 compared with 2007 as lower volume ($1.2 billion) was partially offset by higher prices ($0.2 billion) and the effects of the weaker U.S. dollar ($0.1 billion). The decrease in volume reflected tightened spending in the U.S. market. Segment profit decreased 65%, or $0.7 billion, to $0.4 billion as higher material and other costs ($0.4 billion), lower volume ($0.2 billion), lower productivity ($0.1 billion) and the effects of the weaker U.S. dollar on manufacturing costs ($0.1 billion) were partially offset by higher prices ($0.2 billion).

Consumer & Industrial revenues decreased 4%, or $0.5 billion, in 2007 compared with 2006 as lower volume ($0.8 billion) was partially offset by the effects of the weaker U.S. dollar ($0.2 billion) and higher prices ($0.1 billion). The decrease in volume reflects the sale of GE Supply in the third quarter of 2006. Segment profit rose 7%, or $0.1 billion, as productivity ($0.3 billion) and higher prices ($0.1 billion) were partially offset by higher material and other costs ($0.4 billion). See Corporate Items and Eliminations for a discussion of items not allocated to this segment.

Corporate Items and Eliminations

(In millions)	2008	2007	2006
Revenues			
Insurance activities	$ 3,335	$ 3,962	$ 3,692
Eliminations and other	(1,421)	647	(800)
Total	$ 1,914	$ 4,609	$ 2,892
Operating profit (cost)			
Insurance activities	$ (202)	$ 145	$ 57
Principal pension plans	(244)	(755)	(877)
Underabsorbed corporate overhead	(341)	(437)	(266)
Other	(1,904)	(793)	(462)
Total	$ (2,691)	$ (1,840)	$ (1,548)

Corporate Items and Eliminations include the effects of eliminating transactions between operating segments; results of our insurance activities remaining in continuing operations; certain items in our treasury operations; cost of, and cost reductions from, our principal pension plans; underabsorbed corporate overhead; certain non-allocated amounts described below; and a variety of sundry items. Corporate Items and Eliminations is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements.

Certain amounts included in the line “Other” above are not allocated to segment results for internal measurement purposes. In 2008, amounts primarily related to restructuring, rationalization and other charges were $0.5 billion at each of Capital Finance and NBC Universal, $0.4 billion at Technology Infrastructure and $0.3 billion at each of Energy Infrastructure and Consumer & Industrial. Included in these amounts in 2008 were technology and product development costs of $0.2 billion at NBC Universal and $0.1 billion at Technology Infrastructure and net losses on business exits of $0.2 billion at Capital Finance. In 2007, amounts primarily related to restructuring, rationalization and other charges were $0.5 billion at Technology Infrastructure, $0.4 billion at each of Consumer & Industrial (including $0.1 billion of product quality issues) and Capital Finance, $0.3 billion at NBC Universal, and $0.2 billion at Energy Infrastructure. Included in these amounts in 2007 were technology and product development costs of $0.1 billion at NBC Universal. GECS amounts are on an after-tax basis.

Corporate Items and Eliminations include the elimination of transactions between our segments. In 2007, revenues, eliminations and other included a $0.9 billion gain on sale of a business interest to Hitachi by the Energy business and a $0.6 billion gain on sale of Swiss Re common stock.

Other operating profit (cost) reflects a $0.9 billion gain on sale of a business interest to Hitachi by the Energy business and a $0.3 billion (after-tax basis) gain on sale of Swiss Re common stock in 2007 and gains from sales of business interests of $0.4 billion in 2006, principally GE Supply.

Discontinued Operations

(In millions)	2008	2007	2006
Earnings (loss) from discontinued operations, net of taxes	$ (679)	$ (249)	$ 1,398

Discontinued operations comprised GE Money Japan; WMC; Plastics; Advanced Materials; GE Life, our U.K.-based life insurance operation; the property and casualty insurance and reinsurance businesses and the European life and health operations of GE Insurance Solutions and most of its affiliates; and Genworth, our formerly wholly-owned subsidiary that conducted most of our consumer insurance business, including life and mortgage insurance operations. Results of these businesses are reported as discontinued operations for all periods presented.

During the third quarter of 2007, we committed to a plan to sell our Lake business and recorded an after-tax loss of $0.9 billion, which represents the difference between the net book value of our Lake business and the projected sale price. During 2008, we completed the sale of GE Money Japan, which included Lake, along with our Japanese mortgage and card businesses, excluding our minority ownership interest in GE Nissen Credit Co., Ltd. In connection with this sale, and primarily related to our Japanese mortgage and card businesses, we recorded an incremental $0.4 billion loss in 2008.

In December 2007, we completed the sale of our WMC business for $0.1 billion in cash, recognizing an after-tax loss of $0.1 billion. In connection with the transaction, certain contractual obligations and potential liabilities related to previously sold loans were retained.

In August 2007, we completed the sale of our Plastics business to Saudi Basic Industries Corporation for $11.6 billion in cash. As a result, we recognized an after-tax gain of $1.6 billion.

Loss from discontinued operations, net of taxes, in 2008 was $0.7 billion, primarily reflecting a loss from operations ($0.3 billion), and the estimated incremental loss on disposal ($0.4 billion) at GE Money Japan.

Loss from discontinued operations, net of taxes, in 2007 was $0.2 billion, reflecting a loss from operations at WMC ($0.9 billion), an estimated after-tax loss on the planned sale of Lake ($0.9 billion), a loss from operations at GE Money Japan ($0.3 billion), and an after-tax loss on the sale of our WMC business ($0.1 billion), partially offset by a tax adjustment related to the 2004 initial public offering of Genworth ($0.1 billion). This was partially offset by an after-tax gain on sale of our Plastics business ($1.6 billion) and earnings from Plastics operations ($0.3 billion).

Earnings from discontinued operations, net of taxes, in 2006 were $1.4 billion, reflecting earnings at our Plastics and Advanced Materials businesses ($1.0 billion). Also included in these earnings were earnings at GE Money Japan and WMC ($0.3 billion), Genworth ($0.2 billion) and GE Insurance Solutions ($0.1 billion), partially offset by a loss at GE Life ($0.2 billion).

For additional information related to discontinued operations, see Note 2 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Geographic Operations

Our global activities span all geographic regions and primarily encompass manufacturing for local and export markets, import and sale of products produced in other regions, leasing of aircraft, sourcing for our plants domiciled in other global regions and provision of financial services within these regional economies. Thus, when countries or regions experience currency and/or economic stress, we often have increased exposure to certain risks, but also often have new profit opportunities. Potential increased risks include, among other things, higher receivable delinquencies and bad debts, delays or cancellations of sales and orders principally related to power and aircraft equipment, higher local currency financing costs and slowdown in established financial services activities. New profit opportunities include, among other things, more opportunities for lower cost outsourcing, expansion of industrial and financial services activities through purchases of companies or assets at reduced prices and lower U.S. debt financing costs.

Revenues are classified according to the region to which products and services are sold. For purposes of this analysis, U.S. is presented separately from the remainder of the Americas. We classify certain operations that cannot meaningfully be associated with specific geographic areas as “Other Global” for this purpose.

Geographic Revenues

(In billions)	2008	2007	2006
U.S.	$ 85.3	$ 86.2	$ 81.1
Europe	44.0	39.9	32.6
Pacific Basin	23.6	21.8	17.7
Americas	14.8	12.6	11.5
Middle East and Africa	10.1	8.0	5.5

Other Global	4.7	4.0	3.2
Total	$ 182.5	$ 172.5	$ 151.6

Global revenues rose 13% to $97.2 billion in 2008, compared with $86.3 billion and $70.5 billion in 2007 and 2006, respectively. Global revenues to external customers as a percentage of consolidated revenues were 53% in 2008, compared with 50% and 47% in 2007 and 2006, respectively. The effects of currency fluctuations on reported results were to increase revenues by $2.0 billion, $4.0 billion and $0.1 billion in 2008, 2007 and 2006, respectively.

GE global revenues in 2008 were $59.4 billion, up 19% over 2007, led by increases at Energy Infrastructure and Technology Infrastructure, primarily in the Middle East and Africa, Europe and the Pacific Basin. GE global revenues as a percentage of total GE revenues was 53% in 2008, compared with 50% and 48% in 2007 and 2006, respectively. GE global revenues were $49.8 billion in 2007, up 16% over 2006, led by increases at Energy Infrastructure and Technology Infrastructure, primarily in the Middle East and Africa, Europe and the Pacific Basin.

GECS global revenues rose 4% to $37.8 billion in 2008, compared with $36.5 billion and $27.5 billion in 2007 and 2006, respectively. GECS global revenues as a percentage of total GECS revenues were 53% in 2008, compared with 51% and 45% in 2007 and 2006, respectively. The effects of currency fluctuations on reported results were to increase revenues by $1.2 billion and $2.3 billion in 2008 and 2007, respectively, compared with a decrease of $0.1 billion in 2006.

GECS revenues in the Middle East and Africa grew 25% in 2008, primarily as a result of organic revenue growth at GECAS. Revenues grew 11% in the Americas and 6% in Europe in 2008, primarily as a result of organic revenue growth, acquisitions and the effects of the weaker U.S. dollar, primarily at GE Money and CLL. Revenues in the Pacific Basin remained flat in 2008 from 2007.

Total Assets (continuing operations)

December 31 (In billions)	2008	2007
U.S.	$ 395.6	$ 364.5
Europe	228.0	236.5
Pacific Basin	75.0	87.8
Americas	40.9	42.6
Other Global	56.5	55.4
Total	$ 796.0	$ 786.8

Total assets of global operations on a continuing basis were $400.4 billion in 2008, a decrease of $21.9 billion, or 5%, from 2007. GECS global assets on a continuing basis of $328.4 billion at the end of 2008 were 10% lower than at the end of 2007, reflecting core declines and the effects of the stronger U.S. dollar in Europe, the Pacific Basin and the Americas, partially offset by acquisitions, primarily at GE Money and CLL.

Financial results of our global activities reported in U.S. dollars are affected by currency exchange. We use a number of techniques to manage the effects of currency exchange, including selective borrowings in local currencies and selective hedging of significant cross-currency transactions. Such principal currencies are the pound sterling, the euro, the Japanese yen and the Canadian dollar.

Environmental Matters

Our operations, like operations of other companies engaged in similar businesses, involve the use, disposal and cleanup of substances regulated under environmental protection laws. We are involved in a sizable number of remediation actions to clean up hazardous wastes as required by federal and state laws. Such statutes require that responsible parties fund remediation actions regardless of fault, legality of original disposal or ownership of a disposal site. Expenditures for site remediation actions amounted to approximately $0.3 billion in 2008 and $0.2 billion in 2007. We presently expect that such remediation actions will require average annual expenditures in the range of $0.3 billion to $0.4 billion over the next two years.

In November 2006, the United States Federal District Court approved a consent decree, which had been agreed to by GE and the United States Environmental Protection Agency (EPA), that represents a comprehensive framework for implementation of the EPA's 2002 decision to dredge polychlorinated biphenyl (PCB)-containing sediments in the upper Hudson River. The dredging will be performed in two phases with an intervening peer review of performance after the first phase. Under the consent decree, we have committed to reimburse the EPA for its past and future project oversight costs and to perform the first phase of dredging, which is scheduled to proceed from May through November of 2009. After completion of the peer review, currently scheduled for 2010, we may be responsible for further costs. Our Statement of Financial Position as of December 31, 2008 and 2007, included liabilities for the probable and estimable costs of the agreed upon remediation activities.

Financial Resources and Liquidity

This discussion of financial resources and liquidity addresses the Statement of Financial Position, the Statement of Changes in Shareowners' Equity, the Statement of Cash Flows, Contractual Obligations, Off-Balance Sheet Arrangements, and Debt Instruments, Guarantees and Covenants.

The fundamental differences between GE and GECS are reflected in the measurements commonly used by investors, rating agencies and financial analysts.

Overview of Financial Position

Major changes to our shareowners' equity are discussed in the Consolidated Statement of Changes in Shareowners' Equity section. In addition, other significant changes to balances in our Statement of Financial Position follow.

Statement of Financial Position

Because GE and GECS share certain significant elements of their Statements of Financial Position – property, plant and equipment and borrowings, for example – the following discussion addresses significant captions in the "consolidated" statement. Within the following discussions, however, we distinguish between GE and GECS activities in order to permit meaningful analysis of each individual consolidating statement.

Investment securities comprise mainly investment-grade debt securities supporting obligations to annuitants and policyholders in our run-off insurance operations and holders of guaranteed investment contracts (GICs). Investment securities amounted to $41.4 billion at December 31, 2008, compared with $45.3 billion at December 31, 2007. Of the amount at December 31, 2008, we held debt securities with an estimated fair value of $33.9 billion, which included residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) with estimated fair values of $4.3 billion and $2.1 billion, respectively. Unrealized losses on debt securities were $5.4 billion and $1.1 billion at December 31, 2008, and December 31, 2007, respectively. This amount included unrealized losses on RMBS and CMBS of $1.1 billion and $0.8 billion at the end of 2008, as compared with $0.2 billion and an insignificant amount, respectively, at the end of 2007. Unrealized losses increased as a result of continuing market deterioration, and we believe primarily represent adjustments for liquidity on investment-grade securities.

Of the $4.3 billion of RMBS, our exposure to subprime credit was approximately $1.3 billion, and those securities are primarily held to support obligations to holders of GICs. A majority of these securities have received investment-grade credit ratings from the major rating agencies. We purchased no such securities in 2008 and an insignificant amount of such securities in 2007. These investment securities are collateralized primarily by pools of individual direct-mortgage loans, and do not include structured products such as collateralized debt obligations. Additionally, a majority of our exposure to residential subprime credit related to investment securities backed by mortgage loans originated in 2006 and 2005.

We regularly review investment securities for impairment using both quantitative and qualitative criteria. Quantitative criteria include the length of time and magnitude of the amount that each security is in an unrealized loss position and, for securities with fixed maturities, whether the issuer is in compliance with terms and covenants of the security. Qualitative criteria include the financial health of and specific prospects for the issuer, as well as our intent and ability to hold the security to maturity or until forecasted recovery. In addition, our evaluation at December 31, 2008, considered the continuing market deterioration that resulted in the lack of liquidity and the historic levels of price volatility and credit spreads. With respect to corporate bonds, we placed greater emphasis on the credit quality of the issuers. With respect to RMBS and CMBS, we placed greater emphasis on our expectations with respect to cash flows from the underlying collateral and, with respect to RMBS, we considered the availability of credit enhancements,

principally monoline insurance. Our other-than-temporary impairment reviews involve our finance, risk and asset management functions as well as the portfolio management and research capabilities of our internal and third-party asset managers.

When an other-than-temporary impairment is recognized for a debt security, the charge has two components: (1) the loss of contractual cash flows due to the inability of the issuer (or the insurer, if applicable) to pay all amounts due; and (2) the effects of current market conditions, exclusive of credit losses, on the fair value of the security (principally liquidity discounts and interest rate effects). If the expected loss due to credit remains unchanged for the remaining term of the debt instrument, the latter portion of the impairment charge is subsequently accreted to earnings as interest income over the remaining term of the instrument. When a security is insured, a credit loss event is deemed to have occurred if the insurer is expected to be unable to cover its obligations under the related insurance contract.

Other-than-temporary impairment losses totaled $1.6 billion in 2008 and $0.1 billion in 2007. In 2008, we recognized other-than-temporary impairments, primarily relating to retained interests in our securitization arrangements, RMBS and corporate debt securities of infrastructure, financial institutions and media companies. In 2007, we recognized other-than-temporary impairments, primarily for our retained interests in our securitization arrangements. Investments in retained interests in securitization arrangements also decreased by $0.1 billion during 2008, reflecting declines in fair value accounted for in accordance with a new accounting standard that became effective at the beginning of 2007.

Monoline insurers (Monolines) provide credit enhancement for certain of our investment securities. At December 31, 2008, our investment securities insured by Monolines totaled $3.1 billion, including $1.1 billion of our $1.3 billion investment in subprime RMBS. Although several of the Monolines have been downgraded by the rating agencies, a majority of the $3.1 billion is insured by investment-grade Monolines. The Monoline industry continues to experience financial stress from increasing delinquencies and defaults on the individual loans underlying insured securities. We regularly monitor changes to the expected cash flows of the securities we hold, and the ability of these insurers to pay claims on securities with expected losses. At December 31, 2008, if the Monolines were unable to pay our anticipated claims based on the expected future cash flows of the securities, we would have recorded an impairment charge of $0.3 billion, of which $0.1 billion would relate to expected credit losses and the remaining $0.2 billion would relate to other market factors.

Our qualitative review attempts to identify issuers' securities that are "at-risk" of impairment, that is, with a possibility of other-than-temporary impairment recognition in the following 12 months. Of securities with unrealized losses at December 31, 2008, $0.7 billion of unrealized loss was at risk of being charged to earnings assuming no further changes in price, and that amount primarily related to investments in RMBS and CMBS securities, equity securities, securitization retained interests, and corporate debt securities of financial institutions and media companies. In addition, we had approximately $2.9 billion of exposure to commercial, regional and foreign banks, primarily relating to corporate debt securities, with associated unrealized losses of $0.4 billion. Continued uncertainty in the capital markets may cause increased levels of other-than-temporary impairments.

At December 31, 2008, unrealized losses on investment securities totaled $5.7 billion, including $3.5 billion aged 12 months or longer, compared with unrealized losses of $1.3 billion, including $0.5 billion aged 12 months or longer at December 31, 2007. Of the amount aged 12 months or longer at December 31, 2008, more than 80% of our debt securities were considered to be investment-grade by the major rating agencies. In addition, of the amount aged 12 months or longer, $1.9 billion and $1.4 billion related to structured securities (mortgage-backed, asset-backed and securitization retained interests) and corporate debt securities, respectively. With respect to our investment securities that are in an unrealized loss position at December 31, 2008, we intend to hold them at least until such time as their individual fair values exceed their amortized cost and we have the ability to hold all such debt securities until their maturities. The fair values used to determine these unrealized gains and losses are those defined by relevant accounting standards and are not a forecast of future gains or losses. For additional information, see Note 9 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Fair Value Measurements. Effective January 1, 2008, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Adoption of SFAS 157 did not have a material effect on our financial position or results of operations. During the fourth quarter, our methodology remained consistent with prior quarters for measuring fair value of financial instruments trading in volatile markets. Additional information about our application of SFAS 157 is provided in Note 28 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Working capital, representing GE current receivables and inventories, less GE accounts payable and progress collections, was $3.9 billion at December 31, 2008, down $2.5 billion from December 31, 2007, reflecting higher progress collections at Energy. As Energy delivers units out of its backlog over the next few years, progress collections of $13.1 billion at December 31, 2008, will be earned, affecting working capital adversely. Nonetheless, our performance is expected to improve in 2009 as a result of our Operating Council's initiatives (e.g., lean projects on cycle time), which will significantly offset the decrease in progress collections.

We discuss current receivables and inventories, two important elements of working capital, in the following paragraphs.

Current receivables for GE amounted to $15.1 billion at both the end of 2008 and 2007, and included $11.3 billion due from customers at the end of 2008 compared with $11.0 billion at the end of 2007. GE current receivables turnover was 7.5 in 2008, compared with 7.3 in 2007. See Note 10 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Inventories for GE amounted to $13.6 billion at December 31, 2008, up $0.8 billion from the end of 2007. This increase reflected higher inventories from purchases at Energy Infrastructure. GE inventory turnover was 8.0 and 8.3 in 2008 and 2007, respectively. See Note 11 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Financing receivables is our largest category of assets and represents one of our primary sources of revenues. A discussion of the quality of certain elements of the financing receivables portfolio follows. For purposes of that discussion, “delinquent” receivables are those that are 30 days or more past due; and “nonearning” receivables are those that are 90 days or more past due (or for which collection has otherwise become doubtful).

Our portfolio of financing receivables is diverse and not directly comparable to major U.S. banks. Historically, we have had less consumer exposure, which over time has had higher loss rates than commercial exposure. Our consumer exposure is largely non-U.S. and primarily comprises mortgage, sales finance, auto and personal loans in various European and Asian countries. Our U.S. consumer financing receivables comprise 7% of our total portfolio. Of those, approximately 42% relate primarily to credit cards, which are often subject to profit and loss sharing arrangements with the retailer (the results of which are reflected in GECS revenues), and have a smaller average balance and lower loss severity as compared to bank cards. The remaining 58% are sales finance receivables, which provide electronics, recreation, medical and home improvement financing to customers. In 2007, we exited the U.S. mortgage business and we have no U.S. auto or student loans.

Our commercial portfolio primarily comprises senior, secured positions with comparatively low loss history. The secured receivables in this portfolio are collateralized by a variety of asset classes, including industrial-related facilities and equipment; commercial and residential real estate; vehicles, aircraft, and equipment used in many industries, including the construction, manufacturing, transportation, telecommunications and healthcare industries. In addition, 2% of this portfolio is unsecured corporate debt.

Losses on financing receivables are recognized when they are incurred, which requires us to make our best estimate of probable losses inherent in the portfolio. Such estimate requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of specific customers and market sectors, collateral values, and the present and expected future levels of interest rates. Our risk management process includes standards and policies for reviewing major risk exposures and concentrations, and evaluates relevant data either for individual loans or financing leases, or on a portfolio basis, as appropriate.

December 31 (In millions)	Financing receivables 2008	2007	Nonearning receivables 2008	2007	Allowance for losses 2008	2007
CLL						
Equipment and leasing and other	$ 99,769	$ 96,817	$ 1,526	$ 939	$ 894	$ 661
Commercial and industrial	64,332	58,863	1,128	757	415	276
GE Money						
Non-U.S. residential mortgages	59,595	73,042	3,317	2,465	382	246
Non-U.S. installment and revolving credit	24,441	34,669	413	533	1,051	1,371
U.S. installment and revolving credit	27,645	27,914	758	515	1,700	985
Non-U.S. auto	18,168	27,368	83	75	222	324
Other	9,244	10,198	152	91	214	162
Real Estate(a)	46,735	32,228	194	25	301	168
Energy Financial Services	8,392	7,898	241	–	58	19
GECAS	15,429	14,197	146	–	60	8
Other	4,031	5,111	38	71	28	18
Total	$377,781	$388,305	$ 7,996	$ 5,471	$ 5,325	$ 4,238

(a) Financing receivables included $731 million and $452 million of construction loans at December 31, 2008 and 2007, respectively.

December 31	Nonearning receivables as a percent of financing receivables 2008	2007	Allowance for losses as a percent of nonearning receivables 2008	2007	Allowance for losses as a percent of total financing receivables 2008	2007
CLL						
Equipment and leasing and other	1.5%	1.0%	58.6%	70.4%	0.9%	0.7%
Commercial and industrial	1.8	1.3	36.8	36.5	0.6	0.5
GE Money						
Non-U.S. residential mortgages	5.6	3.4	11.5	10.0	0.6	0.3
Non-U.S. installment and revolving credit	1.7	1.5	254.5	257.2	4.3	4.0
U.S. installment and revolving credit	2.7	1.8	224.3	191.3	6.1	3.5
Non-U.S. auto	0.5	0.3	267.5	432.0	1.2	1.2
Other	1.6	0.9	140.8	178.0	2.3	1.6
Real Estate	0.4	0.1	155.2	672.0	0.6	0.5
Energy Financial Services	2.9	–	24.1	–	0.7	0.2
GECAS	0.9	–	41.1	–	0.4	0.1
Other	0.9	1.4	73.7	25.4	0.7	0.4
Total	2.1	1.4	66.6	77.5	1.4	1.1

The majority of the allowance for losses of $5.3 billion at December 31, 2008, and $4.2 billion at December 31, 2007, is determined based upon a formulaic approach. Further information on the determination of the allowance for losses on financing receivables is provided in the Critical Accounting Estimates section in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Notes 1 and 13 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

A portion of the allowance for losses is related to specific reserves on loans that have been determined to be individually impaired under SFAS 114, Accounting by Creditors for Impairment of a Loan. Under SFAS 114, individually impaired loans are defined as larger balance or restructured loans for which it is probable that the lender will be unable to collect all amounts due according to original contractual terms of the loan agreement. These specific reserves amount to $0.6 billion and $0.4 billion at December 31, 2008 and December 31, 2007, respectively. Further information pertaining to specific reserves is included in the table below.

(42)

December 31 (In millions)	2008	2007
Loans requiring allowance for losses	$ 2,712	$ 986
Loans expected to be fully recoverable	871	391
Total impaired loans	$ 3,583	$ 1,377
Allowance for losses	$ 635	$ 361
Average investment during year	2,064	1,576
Interest income earned while impaired(a)	27	19

(a) Recognized principally on cash basis.

The portfolio of financing receivables, before allowance for losses, was $377.8 billion at December 31, 2008, and $388.3 billion at December 31, 2007. Financing receivables, before allowance for losses, decreased $10.5 billion from December 31, 2007, primarily as a result of commercial and equipment securitization and sales ($36.7 billion), the stronger U.S. dollar ($29.4 billion) and dispositions ($7.0 billion), partially offset by core growth ($42.9 billion) and acquisitions ($31.9 billion).

Related nonearning receivables totaled $8.0 billion (2.1% of outstanding receivables) at December 31, 2008, compared with $5.5 billion (1.4% of outstanding receivables) at December 31, 2007. Related nonearning receivables increased from December 31, 2007, primarily because of rising unemployment, along with the increasingly challenging global economic environment.

The allowance for losses at December 31, 2008, totaled $5.3 billion compared with $4.2 billion at December 31, 2007, representing our best estimate of probable losses inherent in the portfolio and reflecting the then current credit and economic environment. Allowance for losses increased $1.1 billion from December 31, 2007, primarily because of increasing delinquencies and nonearning receivables reflecting the continued weakened economic and credit environment. Coincident with the changes in the environment, we saw a significant increase in delinquencies in the latter half of 2008, particularly in the fourth quarter. As the environment worsened in the latter half of the year, we recognized provisions accordingly.

CLL – Equipment and leasing and other. Nonearning receivables of $1.5 billion represented 19.1% of total nonearning receivables at December 31, 2008. The ratio of allowance for losses as a percent of nonearning receivables declined from 70.4% at December 31, 2007, to 58.6% at December 31, 2008, primarily from an increase in secured exposures which did not require specific reserves based upon the strength of the underlying collateral values.

CLL – Commercial and industrial. Nonearning receivables of $1.1 billion represented 14.1% of total nonearning receivables at December 31, 2008. The ratio of allowance for losses as a percent of nonearning receivables increased from 36.5% at December 31, 2007, to 36.8% at December 31, 2008. The ratio of nonearning receivables as a percentage of financing receivables increased from 1.3% at December 31, 2007, to 1.8% at December 31, 2008, primarily from an increase in nonearning receivables in secured lending in media and communications, auto and transportation, and consumer manufacturing companies.

GE Money – non-U.S. residential mortgages. Nonearning receivables of $3.3 billion represented 41.5% of total nonearning receivables at December 31, 2008. The ratio of allowance for losses as a percent of nonearning receivables increased from 10.0% at December 31, 2007, to 11.5% at December 31, 2008. Our non-U.S. mortgage portfolio has a

loan-to-value of approximately 74% at origination and the vast majority are first lien positions. In addition, we carry mortgage insurance on most first mortgage loans originated at a loan-to-value above 80%. In 2008, our nonearning receivables increased primarily as a result of the declining U.K. housing market and our allowance increased accordingly. At December 31, 2008, we had foreclosed on fewer than 1,000 houses in the U.K.

GE Money – U.S. installment and revolving credit. Nonearning receivables of $0.8 billion represented 9.5% of total nonearning receivables at December 31, 2008. The ratio of allowance for losses as a percent of nonearning receivables increased from 191.3% at December 31, 2007, to 224.3% at December 31, 2008, reflecting the effects of the continued deterioration in our U.S. portfolio in connection with rising unemployment.

GE Money – non-U.S. auto. Nonearning receivables of $0.1 billion represented 1% of total nonearning receivables at December 31, 2008. The ratio of allowance for losses as a percent of nonearning receivables decreased from 432.0% at December 31, 2007, to 267.5% at December 31, 2008. This is primarily a result of the disposition of our Thailand auto business, the decision to dispose of our U.K. auto business, and the effects of recoveries.

Delinquency rates on managed equipment financing loans and leases and managed consumer financing receivables follow.

December 31	2008	2007	2006
Equipment financing	2.17%	1.21%	1.22%
Consumer	7.47	5.38	5.22
U.S.	7.14	5.52	4.93
Non-U.S.	7.64	5.32	5.34

Delinquency rates on equipment financing loans and leases increased from December 31, 2007, and December 31, 2006, to December 31, 2008, primarily as a result of the inclusion of the CitiCapital acquisition and Sanyo acquisition in Japan, which contributed an additional 12 and 9 basis points, respectively, at December 31, 2008, as well as deterioration in our U.S. commercial middle market and certain European portfolios. The current financial market turmoil and tight credit conditions may continue to lead to a higher level of commercial delinquencies and provisions for financing receivables and could adversely affect results of operations at CLL.

Delinquency rates on consumer financing receivables increased from December 31, 2007, and December 31, 2006, to December 31, 2008, primarily because of rising unemployment, an increasingly challenging economic environment and lower volume. This has resulted in continued deterioration in our U.S. and U.K. portfolios. In response, GE Money has continued to tighten underwriting standards globally, increased focus on collection effectiveness and will continue its process of regularly reviewing and adjusting reserve levels. We expect the global environment, along with U.S. unemployment levels, to continue to deteriorate in 2009, which may result in higher provisions for loan losses and could adversely affect results of operations at GE Money. At December 31, 2008, roughly 40% of our U.S.-managed portfolio, which consisted of credit cards, installment and revolving loans, was receivable from subprime borrowers. We had no U.S. subprime residential mortgage loans at December 31, 2008. See Notes 12 and 13 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Other GECS receivables totaled $18.6 billion at December 31, 2008, and $22.1 billion at December 31, 2007, and consisted primarily of amounts due from GE (generally related to certain material procurement programs of $3.0 billion at December 31, 2008 and $2.9 billion at December 31, 2007), insurance receivables, amounts due from Qualified Special Purpose Entities (QSPEs), nonfinancing customer receivables, amounts accrued from investment income, amounts due under operating leases and various sundry items.

Property, plant and equipment totaled $78.5 billion at December 31, 2008, up $0.6 billion from 2007, primarily reflecting acquisitions and additions of commercial aircraft at the GECAS business of Capital Finance. GE property, plant and equipment consisted of investments for its own productive use, whereas the largest element for GECS was equipment provided to third parties on operating leases. Details by category of investment are presented in Note 14 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

GE additions to property, plant and equipment totaled $3.0 billion in both 2008 and 2007. Total expenditures, excluding equipment leased to others, for the past five years were $14.5 billion, of which 33% was investment for growth through new capacity and product development; 31% was investment in productivity through new equipment and process improvements; and 36% was investment for other purposes such as improvement of research and development facilities and safety and environmental protection.

GECS additions to property, plant and equipment were $13.3 billion and $15.2 billion during 2008 and 2007, respectively, primarily reflecting acquisitions and additions of commercial aircraft at the GECAS business of Capital Finance.

Goodwill and other intangible assets totaled $81.8 billion and $15.0 billion, respectively, at December 31, 2008. Goodwill increased $0.6 billion from 2007, primarily from acquisitions – including Hydril Pressure Control by Energy Infrastructure, Merrill Lynch Capital by Capital Finance and Vital Signs at Technology Infrastructure, partially offset by the effects of the stronger U.S. dollar and dispositions. Other intangible assets decreased $1.2 billion from 2007, primarily from amortization expense and the effects of the stronger U.S. dollar. See Note 15 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

All other assets totaled $106.9 billion at year-end 2008, a decrease of $15.9 billion, reflecting decreases in prepaid pension assets, assets held for sale and real estate, partially offset by increases in derivative instruments and associated companies. We recognized other-than-temporary impairments of cost and equity method investments of $0.5 billion and $0.1 billion in 2008 and 2007, respectively, including $0.2 billion relating to our cost method investment in FGIC Corporation during 2008. See Note 16 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Liquidity and Borrowings

We manage our liquidity to help ensure access to sufficient funding at acceptable costs to meet our business needs and financial obligations throughout business cycles. We rely on cash generated through our operating activities as well as unsecured and secured funding sources, including commercial paper, term debt, bank deposits, bank borrowings, securitization and other retail funding products.

The global credit markets have recently experienced unprecedented volatility, which has affected both the availability and cost of our funding sources. In this current volatile credit environment, we have taken a number of initiatives to strengthen our liquidity, maintain our dividend, and maintain the highest credit ratings. Specifically, we have:

- Reduced the GECS dividend to GE from 40% to 10% of GECS earnings and suspended our stock repurchase program.

- Raised $15 billion in cash through common and preferred stock offerings in October 2008 and contributed $5.5 billion to GE Capital. In February 2009, the GE Board authorized a capital contribution of up to $9.5 billion to GE Capital, which is expected to be made in the first quarter of 2009.

    - Reduced our commercial paper borrowings at GECS to $72 billion at December 31, 2008.

- Targeted to further reduce GECS commercial paper borrowings to $50 billion by the end of 2009 and to target committed credit lines equal to GECS commercial paper borrowings going forward.

    - Grown our alternative funding to $54 billion at December 31, 2008, including $36 billion of bank deposits.

- Registered to use the Federal Reserve’s Commercial Paper Funding Facility (CPFF) for up to $98 billion, which is available through October 31, 2009.

- Registered to use the Federal Deposit Insurance Corporation’s (FDIC) Temporary Liquidity Guarantee Program (TLGP) for approximately $126 billion.

- At GECS, we are managing collections versus originations to help support liquidity needs and are estimating $25 billion of excess collections in 2009.

Throughout this period of volatility, we have been able to continue to meet our funding needs at acceptable costs. We continue to access the commercial paper markets without interruption.

During 2008, GECS and its affiliates issued $84.3 billion of senior, unsecured long-term debt. This debt was both fixed and floating rate and was issued to institutional and retail investors in the U.S. and 17 other global markets. Maturities for these issuances ranged from one to 40 years.

During the fourth quarter of 2008, the FDIC adopted the TLGP to address disruptions in the credit market, particularly the interbank lending market, which reduced banks' liquidity and impaired their ability to lend. The goal of the TLGP is to decrease the cost of bank funding so that bank lending to consumers and businesses will normalize. The TLGP guarantees certain newly issued senior, unsecured debt of banks, thrifts, and certain holding companies. Under the FDIC's Final Rule adopted on November 21, 2008, certain senior, unsecured debt issued before June 30, 2009, with a maturity of greater than 30 days that matures on or prior to June 30, 2012, is automatically included in the program. GECC has elected to participate in this program. The fees associated with this program range from 50 to 100 basis points on an annualized basis and vary according to the maturity of the debt issuance. GECC also pays an additional 10 basis points, as it is not an insured depository institution. On February 10, 2009, in a Joint Statement, the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve, the Chairman of the FDIC, the Comptroller of the Currency and the Director of the Office of Thrift Supervision (OTS) announced that, for an additional premium, the FDIC will extend the Debt Guarantee Program of the TLGP through October 2009.

Included in GECS issuances above is $13.4 billion of senior, unsecured long-term debt issued by GECC in the fourth quarter of 2008 under the TLGP with varying maturities up to June 30, 2012. Additionally, GECC had commercial paper of $21.8 billion outstanding at December 31, 2008, which was issued under the TLGP (which is required for all commercial paper issuances with maturities greater than 30 days).

In the fourth quarter of 2008, GE Capital extended $21.8 billion of credit to U.S. customers, including 5 million new accounts, and $7.7 billion of credit (including unfunded commitments of $2.5 billion) to U.S. companies, with an average transaction size of $2.4 million.

During the fourth quarter of 2008, GECS issued commercial paper into the CPFF. The last tranche of this commercial paper matures in February 2009. Although we do not anticipate further utilization of the CPFF, it remains available until October 31, 2009. We incurred $0.6 billion of fees for our participation in the TLGP and CPFF programs through December 31, 2008.

Our 2009 funding plan anticipates approximately $45 billion of senior, unsecured long-term debt issuance. In January 2009, we completed issuances of $11.0 billion funding under the TLGP. We also issued $5.1 billion in non-guaranteed senior, unsecured debt with a maturity of 30 years under the non-guarantee option of the TLGP. These issuances, along with the $13.4 billion of pre-funding done in December 2008, bring our aggregate issuances to $29.5 billion or 66% of our anticipated 2009 funding plan. Additionally, we anticipate that we will be 90% complete with our 2009 funding plan by June 30, 2009.

We maintain securitization capability in most of the asset classes we have traditionally securitized. However, these capabilities have been, and continue to be, more limited than in 2007. We have continued to execute new securitizations utilizing bank commercial paper conduits. Securitization proceeds were $17.8 billion and $76.8 billion during the three months and the year ended December 31, 2008, respectively. Comparable amounts were $23.4 billion and $84.4 billion, for the three months and the year ended December 31, 2007, respectively.

We have successfully grown our alternative funding to $54 billion at December 31, 2008, including $36 billion of bank deposits. Deposits increased by $24.8 billion since January 1, 2008. We have deposit-taking capability at nine banks outside of the U.S. and two banks in the U.S. – GE Money Bank Inc., a Federal Savings Bank (FSB), and GE Capital Financial Inc., an industrial bank (IB). The FSB and IB currently issue certificates of deposits (CDs) distributed by brokers in maturity terms from three months to ten years. Total outstanding CDs at these two banks at December 31, 2008, were $24.5 billion. We expect deposits to continue to grow and constitute a greater percentage of our total funding in the future.

In the event we cannot sufficiently access our normal sources of funding, we have a number of alternative sources of liquidity available, including cash balances and collections, marketable securities and credit lines. In the event these sources are not sufficient to repay commercial paper and term debt as it becomes due or to meet our other liquidity needs, we can access the CPFF and the TLGP and/or seek other sources of funding.

Our cash and equivalents were $48.2 billion at December 31, 2008. We anticipate that we will continue to generate cash from operating activities in the future, which is available to help meet our liquidity needs. We also generate substantial cash from the principal collections of loans and rentals from leased assets, which historically has been invested in asset growth. At GECS, we are managing collections versus originations to help support liquidity needs and are estimating $25 billion of excess collections in 2009.

Committed, unused credit lines totaling $60.0 billion had been extended to us by 65 financial institutions at December 31, 2008. These lines include $37.4 billion of revolving credit agreements under which we can borrow funds for periods exceeding one year. Additionally, $21.3 billion are 364-day lines that contain a term-out feature that allows us to extend borrowings for one year from the date of expiration of the lending agreement.

Exchange rate and interest rate risks are managed with a variety of techniques, including match funding and selective use of derivatives. We use derivatives to mitigate or eliminate certain financial and market risks because we conduct business in diverse markets around the world and local funding is not always efficient. In addition, we use derivatives to adjust the debt we are issuing to match the fixed or floating nature of the assets we are acquiring. We apply strict policies to manage each of these risks, including prohibitions on derivatives market-making or other speculative activities. Following is an analysis of the potential effects of changes in interest rates and currency exchange rates using so-called “shock” tests that model effects of shifts in rates. These are not forecasts.

- It is our policy to minimize exposure to interest rate changes. We fund our financial investments using debt or a combination of debt and hedging instruments so that the interest rates of our borrowings match the expected yields on our assets. To test the effectiveness of our positions, we assumed that, on January 1, 2009, interest rates increased by 100 basis points across the yield curve (a “parallel shift” in that curve) and further assumed that the increase remained in place for 2009. We estimated, based on the year-end 2008 portfolio and holding everything else constant, that our 2009 consolidated net earnings would decline by $0.1 billion.

- It is our policy to minimize currency exposures and to conduct operations either within functional currencies or using the protection of hedge strategies. We analyzed year-end 2008 consolidated currency exposures, including derivatives designated and effective as hedges, to identify assets and liabilities denominated in other than their relevant functional currencies. For such assets and liabilities, we then evaluated the effects of a 10% shift in exchange rates between those currencies and the U.S. dollar. This analysis indicated that there would be an inconsequential effect on 2009 earnings of such a shift in exchange rates.

Consolidated Statement of Changes in Shareowners’ Equity

Shareowners’ equity decreased by $10.9 billion in 2008, compared with increases of $4.1 billion and $2.9 billion in 2007 and 2006, respectively.

Over the three-year period, net earnings increased equity by $17.4 billion, $22.2 billion and $20.7 billion, partially offset by dividends declared of $12.6 billion, $11.7 billion and $10.7 billion in 2008, 2007 and 2006, respectively.

Elements of Other Comprehensive Income reduced shareowners’ equity by $30.2 billion in 2008, compared with increases of $5.1 billion and $0.1 billion in 2007 and 2006, respectively, inclusive of changes in accounting principles. The components of these changes are as follows:

- Changes in benefit plans reduced shareowners’ equity by $13.3 billion in 2008, reflecting declines in the fair value of plan assets as a result of market conditions and adverse changes in the economic environment. This compared with increases of $2.6 billion and $0.3 billion in 2007 and 2006, respectively. In addition, adoption of SFAS 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, at December 31, 2006, reduced shareowners’ equity by $3.8 billion. Further information about changes in benefit plans is provided in Note 6 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

- Currency translation adjustments decreased shareowners’ equity by $11.0 billion in 2008 and increased equity by $4.5 billion and $3.6 billion in 2007 and 2006, respectively. Changes in currency translation adjustments reflect the

effects of changes in currency exchange rates on our net investment in non-U.S. subsidiaries that have functional currencies other than the U.S. dollar. At the end of 2008, the U.S. dollar was stronger against most major currencies, including the pound sterling, the Australian dollar and the euro, compared with a weaker dollar against those currencies at the end of 2007 and 2006. The dollar was weaker against the Japanese yen in 2008 and 2007.

- Net unrealized losses on investment securities reduced shareowners' equity by $3.2 billion in 2008, reflecting adverse market conditions on the fair value of securities classified as available for sale, primarily corporate debt and mortgage-backed securities. The change in fair value of investment securities decreased shareowners' equity by $1.5 billion and $0.2 billion in 2007 and 2006, respectively. Further information about investment securities is provided in Note 9 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

- Changes in the fair value of derivatives designated as cash flow hedges decreased shareowners' equity by $2.7 billion in 2008, primarily reflecting the effect of lower interest rates on interest rate and currency swaps. The change in the fair value of derivatives designated as cash flow hedges decreased equity by $0.5 billion in 2007 and increased equity by $0.2 billion in 2006. Further information about the fair value of derivatives is provided in Note 29 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

As discussed in the previous Liquidity and Borrowings section, in the fourth quarter of 2008 we took a number of actions to strengthen our liquidity, maintain our dividend and maintain the highest credit ratings on our borrowing capability. Actions that were taken that affected our 2008 shareowners' equity included:

- We raised $12.0 billion from the issuance of 547.8 million shares of common stock at an issuance price of $22.25 per share.

- We issued 30,000 shares of preferred stock and related warrants for $3.0 billion in proceeds.

- We suspended our share repurchase program.

As a result of these actions, Other Capital increased by $14.3 billion in 2008, compared with increases of $0.6 billion and $0.3 billion in 2007 and 2006, respectively.

Overview of Our Cash Flow from 2006 through 2008

Consolidated cash and equivalents were $48.2 billion at December 31, 2008, an increase of $32.5 billion from December 31, 2007. Cash and equivalents amounted to $15.7 billion at December 31, 2007, an increase of $1.6 billion from December 31, 2006.

We evaluate our cash flow performance by reviewing our industrial (non-financial services) businesses and financial services businesses separately. Cash from operating activities (CFOA) is the principal source of cash generation for our industrial businesses. The industrial businesses also have liquidity available via the public capital markets. Our financial services businesses use a variety of financial resources to meet our capital needs. Cash for financial services businesses is primarily provided from the issuance of term debt and commercial paper in the public and private markets, as well as financing receivables collections, sales and securitizations.

GE Cash Flow

GE CFOA is a useful measure of performance for our non-financial businesses and totaled $19.1 billion in 2008, $23.3 billion in 2007 and $23.8 billion in 2006. Generally, factors that affect our earnings – for example, pricing, volume, costs and productivity – affect CFOA similarly. However, while management of working capital, including timing of collections and payments and levels of inventory, affects operating results only indirectly, the effect of these programs on CFOA can be significant.

Our GE Statement of Cash Flows shows CFOA in the required format. While that display is of some use in analyzing how various assets and liabilities affected our year-end cash positions, we believe that it is also useful to supplement that display and to examine in a broader context the business activities that provide and require cash.

December 31 (In billions)	2008	2007	2006
Operating cash collections	$ 115.5	$ 102.8	$ 90.6

Operating cash payments	(98.8)	(86.8)	(76.6)
Cash dividends from GECS	2.4	7.3	9.8
GE cash from operating activities (GE CFOA)	$ 19.1	$ 23.3	$ 23.8

The most significant source of cash in CFOA is customer-related activities, the largest of which is collecting cash following a product or services sale. GE operating cash collections increased by $12.7 billion in 2008 and $12.2 billion in 2007. These increases are consistent with the changes in comparable GE operating segment revenues, comprising Energy Infrastructure, Technology Infrastructure, NBC Universal and Consumer & Industrial. Analyses of operating segment revenues discussed in the preceding Segment Operations section is the best way of understanding their customer-related CFOA.

The most significant operating use of cash is to pay our suppliers, employees, tax authorities and others for the wide range of materials and services necessary in a diversified global organization. GE operating cash payments increased by $12.0 billion in 2008 and by $10.2 billion in 2007, comparable to the increases in GE total costs and expenses.

Dividends from GECS represented distribution of a portion of GECS retained earnings, including special dividends from proceeds from certain business sales, and are distinct from cash from continuing operating activities within the financial services businesses, which increased in 2008 by $6.2 billion to $31.2 billion, following an increase of $3.4 billion in 2007. The amounts we show in GE CFOA are the total dividends, including normal dividends as well as any special dividends from excess capital, primarily resulting from GECS business sales. Beginning in the third quarter of 2008, we reduced our dividend from GECS from 40% to 10% of GECS earnings.

GE sells customer receivables to GECS in part to fund the growth of our industrial businesses. These transactions can result in cash generation or cash use in any given period. The incremental cash generated or used from the sale of customer receivables (net effect) is the amount of cash received for receivables sold in a period less the amount of cash collected on receivables previously sold. This net effect represents the cash generated or used in the period related to this activity. The incremental cash generated in GE CFOA from selling these receivables to GECS decreased GE CFOA by $0.1 billion in 2008, and increased GE CFOA by $0.3 billion and $2.0 billion in 2007 and 2006, respectively. See Note 26 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report for additional information about the elimination of intercompany transactions between GE and GECS.

GECS Cash Flow

GECS cash and equivalents aggregated $37.5 billion at December 31, 2008, compared with $9.4 billion at December 31, 2007. GECS CFOA totaled $31.2 billion in 2008, compared with $25.0 billion in 2007. The increase is primarily the result of increased collections of interest from loans and finance leases and rental income from operating leases, resulting primarily from core growth and currency exchange; and increases in cash collateral received from counterparties on derivative contracts. These increases were partially offset by increases in interest payments resulting from increased borrowings and taxes paid.

GECS principal use of cash has been investing in assets to grow its businesses. Of the $28.6 billion that GECS invested during 2008, $17.4 billion was used for additions to financing receivables; $13.3 billion was used to invest in new equipment, principally for lease to others; and $25.0 billion was used for acquisitions of new businesses, the largest of which were Merrill Lynch Capital, CitiCapital and Bank BPH in 2008. This use of cash was partially offset by proceeds from dispositions of property, plant and equipment of $11.0 billion and proceeds from sales of discontinued operations and principal businesses of $10.1 billion.

GECS paid dividends to GE through a distribution of its retained earnings, including special dividends from proceeds of certain business sales. Dividends paid to GE totaled $2.4 billion in 2008, compared with $7.3 billion in 2007. There were no special dividends paid to GE in 2008, compared with $2.4 billion in 2007. During 2008, GECS borrowings with maturities of 90 days or less decreased by $31.3 billion. New borrowings of $122.5 billion having maturities longer than 90 days were added during 2008, while $67.1 billion of such long-term borrowings were retired.

Intercompany Eliminations

Effects of transactions between related companies are eliminated and consist primarily of GECS dividends to GE; GE customer receivables sold to GECS; GECS services for trade receivables management and material procurement; buildings and equipment (including automobiles) leased by GE from GECS; information technology (IT) and other services sold to GECS by GE; aircraft engines manufactured by GE that are installed on aircraft purchased by GECS from third-party producers for lease to others; medical equipment manufactured by GE that is leased by GECS to others; and various investments, loans and allocations of GE corporate overhead costs. See Note 26 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report for further information related to intercompany eliminations.

The lack of a current-year counterpart to last year's $2.4 billion GECS special dividend and a $2.5 billion decrease in GECS ordinary dividend are the primary reasons for the decrease in the amount of intercompany eliminations referred to above.

Contractual Obligations

As defined by reporting regulations, our contractual obligations for future payments as of December 31, 2008, follow.

		Payments due by period			
(In billions)	Total	2009	2010-2011	2012-2013	2014 and thereafter
Borrowings (Note 18)	$ 523.8	$ 193.7	$ 115.6	$ 79.8	$ 134.7
Interest on borrowings	142.0	20.0	29.0	18.0	75.0
Operating lease obligations (Note 5)	6.6	1.3	2.2	1.6	1.5
Purchase obligations(a)(b)	63.0	40.0	16.0	6.0	1.0
Insurance liabilities (Note 19)(c)	22.0	3.0	5.0	3.0	11.0
Other liabilities(d)	97.0	33.0	8.0	4.0	52.0
Contractual obligations of discontinued operations(e)	1.0	1.0	–	–	–

(a) Included all take-or-pay arrangements, capital expenditures, contractual commitments to purchase equipment that will be leased to others, software acquisition/license commitments, contractual minimum programming commitments and any contractually required cash payments for acquisitions.

(b) Excluded funding commitments entered into in the ordinary course of business by our financial services businesses. Further information on these commitments and other guarantees is provided in Note 31 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

(c) Included guaranteed investment contracts, structured settlements and single premium immediate annuities based on scheduled payouts, as well as those contracts with reasonably determinable cash flows such as deferred annuities, universal life, term life, long-term care, whole life and other life insurance contracts.

(d) Included an estimate of future expected funding requirements related to our pension and postretirement benefit plans and included liabilities for unrecognized tax benefits. Because their future cash outflows are uncertain, the following non-current liabilities are excluded from the table above: deferred taxes, derivatives, deferred revenue and other sundry items. See Notes 21 and 29 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report for further information on certain of these items.

(e) Included payments for other liabilities.

Variable Interest Entities and Off-Balance Sheet Arrangements

We securitize financial assets and arrange other forms of asset-backed financing in the ordinary course of business to improve shareowner returns and as an alternative source of funding. The securitization transactions we engage in are similar to those used by many financial institutions. Beyond improving returns, these securitization transactions serve

as funding sources for a variety of diversified lending and securities transactions.

Our securitization activities are conducted using Variable Interest Entities (VIEs), principally QSPEs. Certain of our VIEs are consolidated because we are considered to be the primary beneficiary of the entity. Our interests in other VIEs, including QSPEs and VIEs for which we are not the primary beneficiary, are accounted for as investment securities, financing receivables or equity method investments depending on the nature of our involvement. At December 31, 2008, consolidated variable interest entity assets and liabilities were $26.6 billion and $21.3 billion, respectively, a decrease of $5.8 billion and $3.1 billion from 2007, respectively. At December 31, 2008, variable interests in unconsolidated VIEs other than QSPEs were $2.9 billion, an increase of $1.2 billion from 2007. Our maximum exposure to loss related to such entities at December 31, 2008, was $4.0 billion, up $1.5 billion from 2007, and includes our investment in the unconsolidated VIEs and our contractual obligations to fund new investments by these entities.

QSPEs that we use for securitization are funded with asset-backed commercial paper and term debt. The assets we securitize include: receivables secured by equipment, commercial real estate, credit card receivables, floorplan inventory receivables, GE trade receivables and other assets originated and underwritten by us in the ordinary course of business. At December 31, 2008, off-balance sheet securitization entities held $52.6 billion in transferred financial assets, down $3.6 billion from year-end 2007. Assets held by these entities are of equivalent credit quality to our on-book assets. We monitor the underlying credit quality in accordance with our role as servicer and apply rigorous controls to the execution of securitization transactions. With the exception of credit and liquidity support discussed below, investors in these entities have recourse only to the underlying assets.

At December 31, 2008, our Statement of Financial Position included $10.4 billion in retained interests related to the transferred financial assets discussed above. These retained interests are held by QSPEs and VIEs for which we are not the primary beneficiary and take two forms: (1) sellers' interests, which are classified as financing receivables, and (2) subordinated interests, designed to provide credit enhancement to senior interests, which are classified as investment securities. The carrying value of our retained interests classified as financing receivables was $4.1 billion at December 31, 2008, down $0.1 billion from 2007. The carrying value of our retained interests classified as investment securities was $6.3 billion at December 31, 2008, up $0.6 billion from 2007. Certain of these retained interests are accounted for with changes in fair value recorded in earnings. During both 2008 and 2007, we recognized declines in fair value on those retained interests of $0.1 billion. For those retained interests classified as investment securities, we recognized other-than-temporary impairments of $0.3 billion in 2008, compared with $0.1 billion in 2007. Our recourse liability in these arrangements was an inconsequential amount in both 2008 and 2007.

We are party to various credit enhancement positions with securitization entities, including liquidity and credit support agreements and guarantee and reimbursement contracts, and have provided our best estimate of the fair value of estimated losses on such positions. The estimate of fair value is based on prevailing market conditions at December 31, 2008. Should market conditions deteriorate, actual losses could be higher. Our exposure to loss under such agreements was limited to $2.1 billion at December 31, 2008. Based on our experience, we believe that, under any plausible future economic scenario, the likelihood is remote that the financial support arrangement we provide to securitization entities could have a material adverse effect on our financial position or results of operations.

We did not provide support to consolidated VIEs, unconsolidated VIEs or QSPEs beyond what we are contractually obligated to provide in either 2008 or 2007. We do not have implicit support arrangements with any VIEs or QSPEs.

The FASB currently has a project on its agenda that reconsiders the accounting for VIEs and securitization. While final guidance has not yet been issued, it is likely that the Board will eliminate the scope exclusion in FASB Interpretation (FIN) 46(R) related to QSPEs, which would result in consolidation of a majority of the QSPEs we use for securitization. In addition, proposed changes in the criteria for derecognition of financial assets will significantly reduce the number of securitizations that qualify for off-balance sheet treatment and gain recognition. A revised standard is expected to be issued later in 2009 and could be effective for our 2010 financial statements. Further information about our securitization activity and our involvement with QSPEs is provided in Note 30 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Debt Instruments, Guarantees and Covenants

The major debt rating agencies routinely evaluate our debt. This evaluation is based on a number of factors, which include financial strength as well as transparency with rating agencies and timeliness of financial reporting. In December 2008, Standard & Poor's Ratings Services affirmed our and GE Capital's "AAA" long-term and "A-1+" short-term corporate credit ratings but revised its ratings outlook from stable to negative based partly on the concerns regarding GE Capital's future performance and funding in light of capital market turmoil. On January 24, 2009,

Moody's Investment Services placed the long-term ratings of GE and GE Capital on review for possible downgrade. The firm's "Prime-1" short-term ratings were affirmed. Moody's said the review for downgrade is based primarily upon heightened uncertainty regarding GE Capital's asset quality and earnings performance in future periods. Various debt instruments, guarantees and covenants would require posting additional capital or collateral in the event of a ratings downgrade, but none are triggered if our ratings are reduced to AA-/Aa3 or A-1+/P-1 or higher. Our objective is to maintain our Triple-A rating, but we do not anticipate any major operational impacts should that change.

GE, GECS and GE Capital have distinct business characteristics that the major debt rating agencies evaluate both quantitatively and qualitatively.

Quantitative measures include:

- Earnings and profitability, revenue growth, the breadth and diversity of sources of income and return on assets
- Asset quality, including delinquency and write-off ratios and reserve coverage
- Funding and liquidity, including cash generated from operating activities, leverage ratios such as debt-to-capital, retained cash flow to debt, market access, back-up liquidity from banks and other sources, composition of total debt and interest coverage
- Capital adequacy, including required capital and tangible leverage ratios

Qualitative measures include:

- Franchise strength, including competitive advantage and market conditions and position
- Strength of management, including experience, corporate governance and strategic thinking
- Financial reporting quality, including clarity, completeness and transparency of all financial performance communications

GE Capital's ratings are supported contractually by a GE commitment to maintain the ratio of earnings to fixed charges at a specified level as described below.

Beyond contractually committed lending agreements, other sources of liquidity include medium and long-term funding, monetization, asset securitization, cash receipts from our lending and leasing activities, short-term secured funding on global assets and potential sales of other assets.

Principal debt conditions are described below.

The following conditions relate to GE and GECS:

- Swap, forward and option contracts are required to be executed under standard master agreements containing mutual downgrade provisions that provide the ability of the counterparty to require assignment or termination if the long-term credit rating of the applicable GE entity were to fall below A–/A3. In certain of these master netting agreements, the counterparty also has the ability to require assignment or termination if the short-term rating of the applicable GE entity were to fall below A-1/P-1. The fair value of our exposure after consideration of netting arrangements and collateral under the agreements was estimated to be $4.0 billion at December 31, 2008.
- If GE Capital's ratio of earnings to fixed charges, which was 1.24:1 at the end of 2008, were to deteriorate to 1.10:1, GE has committed to contribute capital to GE Capital. GE also guaranteed certain issuances of GECS subordinated debt having a face amount of $0.8 billion at December 31, 2008 and 2007.
- In connection with certain subordinated debentures for which GECC receives equity credit by rating agencies, GE has agreed to promptly return to GECC dividends, distributions or other payments it receives from GECC during events of default or interest deferral periods under such subordinated debentures. There were $7.3 billion of such debentures outstanding at December 31, 2008.

The following conditions relate to consolidated entities:

- If the short-term credit rating of GE Capital or certain consolidated entities discussed further in Note 30 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report were to be reduced below A–1/P–1, GE Capital would be required to provide substitute liquidity for those entities or provide funds to retire the outstanding commercial paper. The maximum net amount that GE Capital would be required to provide in the event of such a downgrade is determined by contract, and amounted to $3.8 billion at December 31, 2008.

- One group of consolidated entities holds investment securities funded by the issuance of GICs. If the long-term credit rating of GE Capital were to fall below AA-/Aa3 or its short-term credit rating were to fall below A-1+/P-1, GE Capital would be required to provide approximately $3.5 billion of capital to such entities as of December 31, 2008, pursuant to letters of credit issued by GECC. To the extent that the entities' liabilities exceed the ultimate value of the proceeds from the sale of their assets and the amount drawn under the letters of credit, GE Capital could be required to provide such excess amount. As of December 31, 2008, the value of these entities' liabilities was $10.7 billion and the fair value of their assets was $9.2 billion (which included unrealized losses on investment securities of $2.1 billion). With respect to these investment securities, we intend to hold them at least until such time as their individual fair values exceed their amortized cost and we have the ability to hold all such debt securities until maturity.

- Another consolidated entity also issues GICs where proceeds are loaned to GE Capital. If the long-term credit rating of GE Capital were to fall below AA-/Aa3 or its short-term credit rating were to fall below A-1+/P-1, GE Capital could be required to provide up to approximately $4.7 billion as of December 31, 2008 to repay holders of GICs.

In our history, we have never violated any of the above conditions at GE, GECS or GE Capital.

On November 12, 2008, the FDIC approved GE Capital's application for designation as an eligible entity under the FDIC's TLGP. Qualifying debt issued by GE Capital is guaranteed under the Debt Guarantee Program of the FDIC's TLGP and is backed by the full faith and credit of the United States. The FDIC's guarantee under the TLGP is effective until the earlier of the maturity of the debt or June 30, 2012. The maximum amount of debt that GE Capital is permitted to have issued and outstanding under the Debt Guarantee Program at any time is approximately $126 billion. At December 31, 2008, GE Capital had issued and outstanding, $35.2 billion of senior, unsecured debt that was guaranteed by the FDIC. GE Capital and GE entered into an Eligible Entity Designation Agreement and GE Capital is subject to the terms of a Master Agreement, each entered into with the FDIC. The terms of these agreements include, among other things, a requirement that GE and GE Capital reimburse the FDIC for any amounts that the FDIC pays to holders of debt that is guaranteed by the FDIC.

Critical Accounting Estimates

Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. All of these estimates reflect our best judgment about current, and for some estimates future, economic and market conditions and their effects based on information available as of the date of these financial statements. If such conditions persist longer or deteriorate further than expected, it is reasonably possible that the judgments and estimates described below could change, which may result in future impairments of investment securities, goodwill, intangibles and long-lived assets, incremental losses on financing receivables, establishment of valuation allowances on deferred tax assets and increased tax liabilities, among other effects. Also see Note 1, Summary of Significant Accounting Policies, in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report, which discusses the significant accounting policies that we have selected from acceptable alternatives.

Losses on financing receivables are recognized when they are incurred, which requires us to make our best estimate of probable losses inherent in the portfolio. Such estimate requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates, financial health of specific customers and market sectors, collateral values, and the present and expected future levels of interest rates. Our risk management process includes standards and policies for reviewing major risk exposures and concentrations, and evaluates relevant data either for individual loans or financing leases, or on a portfolio basis, as appropriate.

Further information is provided in the Global Risk Management section and Financial Resources and Liquidity – Financing Receivables section of this Item, the Asset impairment section that follows and in Notes 1, 12 and 13 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Revenue recognition on long-term product services agreements requires estimates of profits over the multiple-year terms of such agreements, considering factors such as the frequency and extent of future monitoring, maintenance and overhaul events; the amount of personnel, spare parts and other resources required to perform the services; and future billing rate and cost changes. We routinely review estimates under product services agreements and regularly revise them to adjust for changes in outlook. We also regularly assess customer credit risk inherent in the carrying amounts of receivables and contract costs and estimated earnings, including the risk that contractual penalties may not be sufficient to offset our accumulated investment in the event of customer termination. We gain insight into future utilization and cost trends, as well as credit risk, through our knowledge of the installed base of equipment and the close interaction with our customers that comes with supplying critical services and parts over extended periods. Revisions that affect a product services agreement's total estimated profitability result in an adjustment of earnings; such adjustments decreased earnings by $0.2 billion in 2008 and increased earnings by $0.4 billion and $0.8 billion in 2007 and 2006, respectively. We provide for probable losses when they become evident.

Carrying amounts for product services agreements in progress at both December 31, 2008 and 2007, were $5.5 billion, and are included in the line, "Contract costs and estimated earnings" in Note 16 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Further information is provided in Note 1 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Asset impairment assessment involves various estimates and assumptions as follows:

Investments. We regularly review investment securities for impairment using both quantitative and qualitative criteria. Quantitative criteria include the length of time and magnitude of the amount that each security is in an unrealized loss position and, for securities with fixed maturities, whether the issuer is in compliance with terms and covenants of the security. Qualitative criteria include the financial health of and specific prospects for the issuer, as well as our intent and ability to hold the security to maturity or until forecasted recovery. Our other-than-temporary impairment reviews involve our finance, risk and asset management functions as well as the portfolio management and research capabilities of our internal and third-party asset managers. See Note 28 in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report, which discusses the determination of fair value of investment securities.

Further information about actual and potential impairment losses is provided in the Financial Resources and Liquidity – Investment Securities section of this Item and in Notes 1, 9 and 16 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Long-Lived Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which undiscounted cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We derive the required undiscounted cash flow estimates from our historical experience and our internal business plans. To determine fair value, we use our internal cash flow estimates discounted at an appropriate interest rate, quoted market prices when available and independent appraisals, as appropriate.

Commercial aircraft are a significant concentration of assets in Capital Finance, and are particularly subject to market fluctuations. Therefore, we test recoverability of each aircraft in our operating lease portfolio at least annually. Additionally, we perform quarterly evaluations in circumstances such as when aircraft are re-leased, current lease

terms have changed or a specific lessee's credit standing changes. We consider market conditions, such as global demand for commercial aircraft. Estimates of future rentals and residual values are based on historical experience and information received routinely from independent appraisers. Estimated cash flows from future leases are reduced for expected downtime between leases and for estimated technical costs required to prepare aircraft to be redeployed. Fair value used to measure impairment is based on current market values from independent appraisers.

We recognized impairment losses on our operating lease portfolio of commercial aircraft of $0.1 billion in both 2008 and 2007. Provisions for losses on financing receivables related to commercial aircraft were insignificant in 2008 and 2007.

Further information on impairment losses and our exposure to the commercial aviation industry is provided in the Operations – Overview section of this Item and in Notes 14 and 31 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Real Estate. We review our real estate investment portfolio for impairment routinely or when events or circumstances indicate that the related carrying amounts may not be recoverable. The cash flow estimates used for both estimating value and the recoverability analysis are inherently judgmental, and reflect current and projected lease profiles, available industry information about expected trends in rental, occupancy and capitalization rates and expected business plans, which include our estimated holding period for the asset. Our portfolio is diversified, both geographically and by asset type. However, the global real estate market is subject to periodic cycles that can cause significant fluctuations in market values. At December 31, 2008, the carrying value of our Capital Finance Real Estate investments exceeded the estimated value by about $4 billion. At December 31, 2007, the estimated value exceeded the carrying value by about $3 billion. This decline in the estimated value of the portfolio reflected sales of properties with a book value of $5.8 billion, resulting in pre-tax gains of $1.9 billion, and also reflected deterioration in current and expected real estate market liquidity and macroeconomic trends throughout the year, resulting in declining market occupancy rates and market rents as well as increases in our estimates of market capitalization rates based on historical data. Declines in estimated value of real estate below carrying value result in impairment losses when the aggregate undiscounted cash flow estimates used in the estimated value measurement are below carrying amount. As such, estimated losses in the portfolio will not necessarily result in recognized impairment losses. When we recognize an impairment, the impairment is measured based upon the fair value of the underlying asset which is based upon current market data, including current capitalization rates. During 2008, Capital Finance Real Estate recognized pre-tax impairments of $0.3 billion in its real estate held for investment, as compared to $0.2 billion in 2007. Continued deterioration in economic conditions or prolonged market illiquidity may result in further impairments being recognized. Furthermore, significant judgment and uncertainty related to forecasted valuation trends, especially in illiquid markets, results in inherent imprecision in real estate value estimates. Further information is provided in the Global Risk Management section of this Item and in Note 16 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Goodwill and Other Identified Intangible Assets. We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that the fair value of a reporting unit has fallen below its carrying amount, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Determining whether an impairment has occurred requires valuation of the respective reporting unit, which we estimate using a discounted cash flow method. For financial services reporting units, these cash flows are reduced for estimated interest costs. Also, when determining the amount of goodwill to be allocated to a business disposition for a financial services business, we reduce the cash proceeds we receive from the sale by the amount of debt which is allocated to the sold business in order to be consistent with the reporting unit valuation methodology. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data.

If this analysis indicates goodwill is impaired, measuring the impairment requires a fair value estimate of each identified tangible and intangible asset. In this case, we supplement the cash flow approach discussed above with independent appraisals, as appropriate.

Given the significant changes in the business climate for financial services and our stated strategy to reduce our Capital Finance ending net investment, we re-tested goodwill for impairment at the reporting units within Capital Finance during the fourth quarter of 2008. In performing this analysis, we revised our estimated future cash flows and discount rates, as appropriate, to reflect current market conditions in the financial services industry. In each case, no impairment was indicated. Reporting units within Capital Finance are CLL, GE Money, Real Estate, Energy Financial

Services and GECAS, which had goodwill balances at December 31, 2008, of $12.8 billion, $9.1 billion, $1.2 billion, $2.2 billion and $0.2 billion, respectively.

We review identified intangible assets with defined useful lives and subject to amortization for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether an impairment loss occurred requires comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset. We test intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows. For our insurance activities remaining in continuing operations, we periodically test for impairment our deferred acquisition costs and present value of future profits.

Further information is provided in the Financial Resources and Liquidity – Goodwill and Other Intangible Assets section of this Item and in Notes 1 and 15 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Pension assumptions are significant inputs to the actuarial models that measure pension benefit obligations and related effects on operations. Two assumptions – discount rate and expected return on assets – are important elements of plan expense and asset/liability measurement. We evaluate these critical assumptions at least annually on a plan and country-specific basis. We periodically evaluate other assumptions involving demographic factors, such as retirement age, mortality and turnover, and update them to reflect our experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

Accumulated and projected benefit obligations are expressed as the present value of future cash payments. We discount those cash payments using the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to the payment of benefits. Lower discount rates increase present values and subsequent-year pension expense; higher discount rates decrease present values and subsequent-year pension expense.

Our discount rates for principal pension plans at December 31, 2008, 2007 and 2006 were 6.11%, 6.34% and 5.75%, respectively, reflecting market interest rates.

To determine the expected long-term rate of return on pension plan assets, we consider current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. In developing future return expectations for our principal benefit plans’ assets, we evaluate general market trends as well as key elements of asset class returns such as expected earnings growth, yields and spreads across a number of potential scenarios. Assets in our principal pension plans declined 28.2% in 2008, and had average annual earnings of 3.3%, 4.0% and 10.1% per year in the five-, 10- and 25-year periods ended December 31, 2008, respectively. In 2007, assets in our principal pension plans earned 13.6% and had average annual earnings of 14.9%, 9.2% and 12.2% per year in the five-, 10- and 25-year periods ended December 31, 2007, respectively. Based on our analysis of future expectations of asset performance, past return results, and our current and expected asset allocations, we have assumed an 8.5% long-term expected return on those assets.

Sensitivity to changes in key assumptions for our principal pension plans follows.

- Discount rate – A 25 basis point increase in discount rate would decrease pension cost in the following year by $0.2 billion.

    - Expected return on assets – A 50 basis point decrease in the expected return on assets would increase pension cost in the following year by $0.3 billion.

Further information on our pension plans is provided in the Operations – Overview section of this Item and in Note 6 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Income Taxes. Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties under FIN 48, Accounting for Uncertainty in Income Taxes. We review our tax positions quarterly and adjust the balances as new information becomes available. Our income tax rate is significantly affected by the tax rate on our global operations. In addition to local country tax laws and regulations, this rate depends on the extent earnings are indefinitely reinvested outside the United States. Indefinite reinvestment is determined by management's judgment about and intentions concerning the future operations of the company. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. We use our historical experience and our short and long-range business forecasts to provide insight. Further, our global and diversified business portfolio gives us the opportunity to employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. Amounts recorded for deferred tax assets related to non-U.S. net operating losses, net of valuation allowances, were $1.8 billion and $1.7 billion at December 31, 2008 and 2007, respectively. Such year-end 2008 amounts are expected to be fully recoverable within the applicable statutory expiration periods. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

Further information on income taxes is provided in the Operations – Overview section of this Item and in Notes 7 and 21 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Derivatives and Hedging. We use derivatives to manage a variety of risks, including risks related to interest rates, foreign exchange and commodity prices. Accounting for derivatives as hedges requires that, at inception and over the term of the arrangement, the hedged item and related derivative meet the requirements for hedge accounting. The rules and interpretations related to derivatives accounting are complex. Failure to apply this complex guidance correctly will result in all changes in the fair value of the derivative being reported in earnings, without regard to the offsetting changes in the fair value of the hedged item.

In evaluating whether a particular relationship qualifies for hedge accounting, we test effectiveness at inception and each reporting period thereafter by determining whether changes in the fair value of the derivative offset, within a specified range, changes in the fair value of the hedged item. If fair value changes fail this test, we discontinue applying hedge accounting to that relationship prospectively. Fair values of both the derivative instrument and the hedged item are calculated using internal valuation models incorporating market-based assumptions, subject to third-party confirmation.

At December 31, 2008, derivative assets and liabilities were $12.6 billion and $5.2 billion, respectively. Further information about our use of derivatives is provided in Notes 18, 23 and 29 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report.

Investments measured at fair value in earnings include retained interests in securitizations accounted for under SFAS 155, Accounting for Certain Hybrid Financial Instruments, and equity investments of $2.6 billion at year-end 2008. The earnings effects of changes in fair value on these assets, favorable and unfavorable, will be reflected in the period in which those changes occur. As discussed in Note 17 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report, we have businesses that are held for sale

valued at $2.7 billion at year-end 2008, which represents the estimated fair value less costs to sell. Those sales are expected to close in the first quarter of 2009. As discussed in Note 16 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report, we also have assets that are classified as held for sale in the ordinary course of business, primarily credit card receivables, loans and real estate properties, carried at $5.0 billion at year-end 2008, which represents the lower of carrying amount or estimated fair value less costs to sell. To the extent that the estimated fair value less costs to sell is lower than carrying value, any favorable or unfavorable changes in fair value will be reflected in earnings in the period in which such changes occur.

Other loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will materially exceed the recorded provision. Contingent liabilities are often resolved over long time periods. Estimating probable losses requires analysis of multiple forecasts that often depend on judgments about potential actions by third parties such as regulators.

Further information is provided in Notes 20 and 31 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Other Information

New Accounting Standards

On September 15, 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a new framework for measuring that value and expands disclosures about fair value measurements. The standard applied prospectively to new fair value measurements performed after January 1, 2008, for measurements of the fair values of financial instruments and recurring fair value measurements of non-financial assets and liabilities; on January 1, 2009, the standard applies to all remaining fair value measurements, including non-recurring valuations of non-financial assets and liabilities such as those used in measuring impairments of goodwill, other intangible assets and other long-lived assets. It also applies to fair value measurements of non-financial assets acquired and liabilities assumed in business combinations consummated after January 1, 2009.

On December 4, 2007, the FASB issued SFAS 141(R), Business Combinations, which is effective for us on January 1, 2009. This standard will significantly change the accounting for business acquisitions both during the period of the acquisition and in subsequent periods. Among the more significant changes in the accounting for acquisitions are the following:

- In-process research and development (IPR&D) will be accounted for as an asset, with the cost recognized as the research and development is realized or abandoned. IPR&D is presently expensed at the time of the acquisition.

- Contingent consideration will generally be recorded at fair value with subsequent adjustments recognized in operations. Contingent consideration is presently accounted for as an adjustment of purchase price.

- Decreases in valuation allowances on acquired deferred tax assets will be recognized in operations. Such changes previously were considered to be subsequent changes in consideration and were recorded as decreases in goodwill.

- Transaction costs will generally be expensed. Certain such costs are presently treated as costs of the acquisition.

Generally, the effects of SFAS 141(R) will depend on future acquisitions. In the fourth quarter of 2008, we expensed an insignificant amount of direct costs related to business combinations that were in process, but not completed by the effective date of SFAS 141(R). In December 2008, the FASB issued FASB Staff Position (FSP) FAS 141(R)-a, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, a proposed FSP which would amend the accounting in SFAS 141(R) for assets and liabilities arising from contingencies in a business combination. The proposed FSP would require that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined. If fair value cannot be reasonably determined, the proposed FSP requires measurement based on the best estimate in accordance with SFAS 5, Accounting for Contingencies.

Also on December 4, 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, which is effective for us on January 1, 2009. This standard will significantly change the accounting and reporting related to noncontrolling interests in our consolidated financial statements. After adoption, noncontrolling interests ($8.9 billion and $8.0 billion at December 31, 2008 and 2007, respectively) will be classified as shareowners' equity, a change from its current classification between liabilities and shareowners' equity. Earnings attributable to minority interests ($0.6 billion in 2008 and $0.9 billion in both 2007 and 2006) will be included in net earnings, although such earnings will continue to be deducted to measure earnings per share. Purchases and sales of minority interests will be reported in equity similar to treasury stock transactions. Gains on sales of minority interests that would not have been reported in net earnings under SFAS 160 amounted to $0.4 billion and $0.9 billion in 2008 and 2007, respectively.

On December 12, 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue 07-1, Accounting for Collaborative Arrangements. The consensus provides guidance on presentation of the financial results of a collaborative arrangement, including payments between the parties. The consensus requires us to present the results of the collaborative arrangement in accordance with EITF Issue 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, and, in the absence of applicable authoritative literature, to adopt an accounting policy for payments between the participants that will be consistently applied. The consensus is applied retrospectively to all collaborative arrangements existing as of January 1, 2009, and covers arrangements in several of our businesses. Adoption of this standard will not affect our earnings, cash flows or financial position.

Supplemental Information

Financial Measures that Supplement Generally Accepted Accounting Principles

We sometimes use information derived from consolidated financial information but not presented in our financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). Certain of these data are considered “non-GAAP financial measures” under U.S. Securities and Exchange Commission rules. Specifically, we have referred, in various sections of this Annual Report, to:

- Average organic revenue growth for the three years ended December 31, 2008
- Average total shareowners’ equity, excluding effects of discontinued operations
- Ratio of debt to equity at GE Capital, net of cash and equivalents and with classification of hybrid debt as equity
- GE pre-tax earnings from continuing operations before income taxes, excluding GECS earnings from continuing operations, the corresponding effective tax rates and the reconciliation of the U.S. federal statutory rate to those effective tax rates for the three years ended December 31, 2008
- Delinquency rates on managed equipment financing loans and leases and managed consumer financing receivables for 2008, 2007 and 2006

The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable GAAP financial measures follow.

Organic Revenue Growth in 2008

(In millions)	2008	2007	% change
GE consolidated revenues as reported	$ 182,515	$ 172,488	
Less the effects of			
Acquisitions, business dispositions (other than dispositions			
of businesses acquired for investment) and currency exchange rates	10,139	2,992	
The 2008 Olympics broadcasts	1,020	–	
GE consolidated revenues excluding the effects of			

acquisitions, business dispositions (other than dispositions of businesses acquired for investment), currency exchange rates and the 2008 Olympics broadcasts (organic revenues)	$ 171,356	$ 169,496	1%

(59)

Organic Revenue Growth in 2007

(In millions)	2007	2006	% change
GE consolidated revenues as reported	$ 172,488	$ 151,568	
Less the effects of Acquisitions, business dispositions (other than dispositions of businesses acquired for investment) and currency exchange rates	12,803	4,992	
The 2006 Olympics broadcasts	–	684	
Reclassification of discontinued operations	(250)	(275)	
GE consolidated revenues excluding the effects of acquisitions, business dispositions (other than dispositions of businesses acquired for investment), currency exchange rates, the 2006 Olympics broadcasts and reclassifications of discontinued operations (organic revenues)	$ 159,935	$ 146,167	9%

Organic Revenue Growth in 2006

(In millions)	2006	2005	% change
GE consolidated revenues as reported	$ 151,568	$ 136,262	
Less the effects of Acquisitions, business dispositions (other than dispositions of businesses acquired for investment) and currency exchange rates	5,213	2,750	
The 2006 Olympics broadcasts	684	–	
Restatement and immaterial adjustments	(219)	398	
Reclassifications of discontinued operations	(11,407)	(11,552)	
GE consolidated revenues excluding the effects of acquisitions, business dispositions (other than dispositions of businesses acquired for investment), currency exchange rates, the 2006 Olympics broadcasts, restatement and immaterial adjustments and reclassifications of discontinued operations (organic revenues)	$ 157,297	$ 144,666	9%
Three-year average			6%

Organic revenue growth measures revenue excluding the effects of acquisitions, business dispositions and currency exchange rates, and without the effects of the 2008 and 2006 Olympics broadcasts, the restatement and immaterial adjustments and reclassifications of discontinued operations. We believe that this measure provides management and investors with a more complete understanding of underlying operating results and trends of established, ongoing operations by excluding the effect of acquisitions, dispositions and currency exchange, which activities are subject to volatility and can obscure underlying trends, and the 2008 and 2006 Olympics broadcasts, the restatement and immaterial adjustments and reclassification of discontinued operations, which if included would overshadow trends in ongoing revenues. Management recognizes that the term “organic revenue growth” may be interpreted differently by other companies and under different circumstances. Although this may have an effect on comparability of absolute percentage growth from company to company, we believe that these measures are useful in assessing trends of the respective businesses or companies and may therefore be a useful tool in assessing period-to-period performance trends.

Average Total Shareowners' Equity, Excluding Effects of Discontinued Operations(a)

December 31 (In millions)	2008	2007	2006	2005	2004
Average total shareowners' equity(b)	$ 113,387	$ 113,842	$ 109,174	$ 110,998	$ 94,521
Less the effects of					
Cumulative earnings from discontinued operations	–	–	–	2,094	2,985
Average net investment in discontinued operations	(590)	3,640	11,658	13,298	8,743
Average total shareowners' equity, excluding effects of					
discontinued operations(a)	$ 113,977	$ 110,202	$ 97,516	$ 95,606	$ 82,793

(a) Used for computing return on average shareowners' equity and return on average total capital invested shown in the Selected Financial Data section in Part II, Item 6. "Selected Financial Data."
(b) On an annual basis, calculated using a five-point average.

Our ROTC calculation excludes earnings (losses) of discontinued operations from the numerator because U.S. GAAP requires us to display those earnings (losses) in the Statement of Earnings. We exclude the cumulative effect of earnings (losses) of discontinued operations from the denominator in our ROTC calculation (1) for each of the periods for which related discontinued operations were presented, and (2) for our average net investment in discontinued operations since July 1, 2005. Had we disposed of these operations before July 1, 2005, we would have applied the proceeds to reduce parent-supported debt at GE Capital. However, since parent-supported debt at GE Capital was retired by June 30, 2005, we have assumed that we would have distributed the proceeds after that time to shareowners through share repurchases, thus reducing average total shareowners' equity. Our calculation of average total shareowners' equity may not be directly comparable to similarly titled measures reported by other companies. We believe that it is a clearer way to measure the ongoing trend in return on total capital for the continuing operations of our businesses given the extent that discontinued operations have affected our reported results. We believe that this results in a more relevant measure for management and investors to evaluate performance of our continuing operations, on a consistent basis, and to evaluate and compare the performance of our continuing operations with the ongoing operations of other businesses and companies.

Definitions indicating how the above-named ratios are calculated using average total shareowners' equity, excluding effects of discontinued operations, can be found in the Glossary.

Ratio of Debt to Equity at GE Capital, Net of Cash and Equivalents and with Classification of Hybrid Debt as Equity

December 31 (Dollars in millions)	2008
GE Capital debt	$ 510,356
Less cash and equivalents	(36,430)
Less hybrid debt	(7,725)
	$ 466,201
GE Capital equity	$ 58,229

Plus hybrid debt	7,725
	$ 65,954
Ratio	7.07:1

We have provided the GE Capital ratio of debt to equity on a basis that reflects the use of cash and equivalents to reduce debt, and with long-term debt due in 2066 and 2067 classified as equity. We believe this is a useful comparison to a GAAP-based ratio of debt to equity because cash balances may be used to reduce debt and because this long-term debt has equity-like characteristics. The usefulness of this supplemental measure may be limited, however, as the total amount of cash and equivalents at any point in time may be different than the amount that could practically be applied to reduce outstanding debt, and it may not be advantageous or practical to replace debt that does not mature for more than 50 years with equity. Also, in February 2009, the GE Board authorized a capital contribution of up to $9.5 billion to GE Capital, which is expected to be made in the first quarter of 2009. The effect of this capital contribution on GE Capital equity is not reflected in the ratio above. Despite these potential limitations, we believe that this measure, considered along with the corresponding GAAP measure, provides investors with additional information that may be more comparable to other financial institutions and businesses.

GE Income Tax Rate, Excluding GECS Earnings

(In millions)	2008	2007	2006
GE earnings from continuing operations before income taxes	$ 21,516	$ 25,251	$ 21,896
Less GECS earnings from continuing operations	7,774	12,417	10,219
Total	$ 13,742	$ 12,834	$ 11,677
GE provision for income taxes	$ 3,427	$ 2,794	$ 2,552
GE effective tax rate, excluding GECS earnings	24.9%	21.8%	21.9%

Reconciliation of U.S. Federal Statutory Income Tax Rate to GE Income Tax Rate, Excluding GECS Earnings

	2008	2007	2006
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Reduction in rate resulting from			
Tax on global activities including exports	(8.2)	(9.9)	(12.2)
U.S. business credits	(0.6)	(0.6)	(0.7)
All other – net	(1.3)	(2.7)	(0.2)
	(10.1)	(13.2)	(13.1)
GE income tax rate, excluding GECS earnings	24.9%	21.8%	21.9%

We believe that the GE effective tax rate is best analyzed in relation to GE earnings before income taxes excluding the GECS net earnings from continuing operations, as GE tax expense does not include taxes on GECS earnings. Management believes that in addition to the Consolidated and GECS tax rates shown in Note 7 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report, this supplemental measure provides investors with useful information as it presents the GE effective tax rate that can be used in comparing the GE results to other non-financial services businesses.

Delinquency Rates on Certain Financing Receivables

Delinquency rates on managed equipment financing loans and leases and managed consumer financing receivables follow.

Equipment Financing

December 31	2008	2007	2006
Managed	2.17%	1.21%	1.22%
Off-book	1.20	0.71	0.52
On-book	2.34	1.33	1.42

Consumer

December 31	2008	2007	2006
Managed	7.47%	5.38%	5.22%
U.S.	7.14	5.52	4.93
Non-U.S.	7.64	5.32	5.34
Off-book	8.24	6.64	5.49
U.S.	8.24	6.64	5.49
Non-U.S.	(a)	(a)	(a)
On-book	7.35	5.22	5.20
U.S.	6.39	4.78	4.70
Non-U.S.	7.64	5.32	5.34

(a) Not applicable.

Delinquency rates on on-book and off-book equipment financing loans and leases increased from December 31, 2007 to December 31, 2008, as a result of continuing weakness in the economic and credit environment. In addition, delinquency rates on on-book equipment financing loans and leases increased from December 31, 2007 to December 31, 2008, as a result of the inclusion of the CitiCapital acquisition and Sanyo acquisition in Japan, which contributed an additional 12 and 9 basis points, respectively, at December 31, 2008.

The increases in off-book and on-book delinquencies for consumer financing receivables in the U.S. from December 31, 2007 to December 31, 2008, reflect the continued rise in delinquencies across the U.S. credit card receivables platforms. The increase in on-book delinquencies for consumer financing receivables outside of the U.S. reflects the effects of the declining U.K. housing market. The increase in off-book delinquencies for consumer financing receivables in the U.S. from December 31, 2006 to December 31, 2007, reflected both a change in the mix of the receivables securitized during 2007 – for example, our Care Credit receivables which generally have a higher delinquency rate than our core private label card portfolio – as well as the risk in the delinquencies across the broader portfolio of U.S. credit card receivables.

We believe that delinquency rates on managed financing receivables provide a useful perspective of our portfolio quality and are key indicators of financial performance. We use this non-GAAP financial measure because it provides information that enables management and investors to understand the underlying operational performance and trends of certain financing receivables and facilitates a comparison with the performance of our competitors. The same underwriting standards and ongoing risk monitoring are used for both on-book and off-book portfolios as the customer’s credit performance will affect both loans retained on the Statement of Financial Position and securitized loans. We believe that managed basis information is useful to management and investors, enabling them to understand both the credit risks associated with the loans reported on the Statement of Financial Position and our retained interests in securitized loans.

Glossary

Backlog Unfilled customer orders for products and product services (12 months for product services).

Borrowing Financial liability (short or long-term) that obligates us to repay cash or another financial asset to another entity.

Borrowings as a percentage of total capital invested For GE, the sum of borrowings and mandatorily redeemable preferred stock, divided by the sum of borrowings, mandatorily redeemable preferred stock, minority interest and total shareowners' equity.

Cash equivalents Highly liquid debt instruments with original maturities of three months or less, such as commercial paper. Typically included with cash for reporting purposes, unless designated as available-for-sale and included with investment securities.

Cash flow hedges Qualifying derivative instruments that we use to protect ourselves against exposure to variability in future cash flows. The exposure may be associated with an existing asset or liability, or with a forecasted transaction. See "Hedge."

Commercial paper Unsecured, unregistered promise to repay borrowed funds in a specified period ranging from overnight to 270 days.

Derivative instrument A financial instrument or contract with another party (counterparty) that is designed to meet any of a variety of risk management objectives, including those related to fluctuations in interest rates, currency exchange rates or commodity prices. Options, forwards and swaps are the most common derivative instruments we employ. See "Hedge."

Discontinued operations Certain businesses we have sold or committed to sell within the next year and therefore will no longer be part of our ongoing operations. The net earnings, assets and liabilities, and cash flows of such businesses are separately classified on our Statement of Earnings, Statement of Financial Position and Statement of Cash Flows, respectively, for all periods presented.

Effective tax rate Provision for income taxes as a percentage of earnings from continuing operations before income taxes and accounting changes. Does not represent cash paid for income taxes in the current accounting period. Also referred to as "actual tax rate" or "tax rate."

Equipment leased to others Rental equipment we own that is available to rent and is stated at cost less accumulated depreciation.

Fair value hedge Qualifying derivative instruments that we use to reduce the risk of changes in the fair value of assets, liabilities or certain types of firm commitments. Changes in the fair values of derivative instruments that are designated and effective as fair value hedges are recorded in earnings, but are offset by corresponding changes in the fair values of the hedged items. See "Hedge."

Financing receivables Investment in contractual loans and leases due from customers (not investment securities).

Forward contract Fixed price contract for purchase or sale of a specified quantity of a commodity, security, currency or other financial instrument with delivery and settlement at a specified future date. Commonly used as a hedging tool. See "Hedge."

Goodwill The premium paid for acquisition of a business. Calculated as the purchase price less the fair value of net assets acquired (net assets are identified tangible and intangible assets, less liabilities assumed).

Guaranteed investment contracts (GICs) Deposit-type products that guarantee a minimum rate of return, which may be fixed or floating.

Hedge A technique designed to eliminate risk. Often refers to the use of derivative financial instruments to offset changes in interest rates, currency exchange rates or commodity prices, although many business positions are “naturally hedged” – for example, funding a U.S. fixed-rate investment with U.S. fixed-rate borrowings is a natural interest rate hedge.

Intangible asset A non-financial asset lacking physical substance, such as goodwill, patents, licenses, trademarks and customer relationships.

Interest rate swap Agreement under which two counterparties agree to exchange one type of interest rate cash flow for another. In a typical arrangement, one party periodically will pay a fixed amount of interest, in exchange for which that party will receive variable payments computed using a published index. See “Hedge.”

Investment securities Generally, an instrument that provides an ownership position in a corporation (a stock), a creditor relationship with a corporation or governmental body (a bond), rights to contractual cash flows backed by pools of financial assets or rights to ownership such as those represented by options, subscription rights and subscription warrants.

Managed receivables Total receivable amounts on which we continue to perform billing and collection activities, including receivables that have been sold with and without credit recourse and are no longer reported on our Statement of Financial Position.

Match funding A risk control policy that provides funding for a particular financial asset having the same currency, maturity and interest rate characteristics as that asset. Match funding is executed directly, by issuing debt, or synthetically, through a combination of debt and derivative financial instruments. For example, when we lend at a fixed interest rate in the U.S., we can borrow those U.S. dollars either at a fixed rate of interest or at a floating rate executed concurrently with a pay-fixed interest rate swap. See “Hedge.”

Monetization Sale of financial assets to a third party for cash. For example, we sell certain loans, credit card receivables and trade receivables to third-party financial buyers, typically providing at least some credit protection and often agreeing to provide collection and processing services for a fee. Monetization normally results in gains on interest-bearing assets and losses on non-interest bearing assets. See “Securitization” and “Variable Interest Entity.”

Operating profit GE earnings from continuing operations before interest and other financial charges, income taxes and effects of accounting changes.

Option The right, not the obligation, to execute a transaction at a designated price, generally involving equity interests, interest rates, currencies or commodities. See “Hedge.”

Premium Rate that is charged under insurance/reinsurance contracts.

Product services For purposes of the financial statement display of sales and costs of sales in our Statement of Earnings, “goods” is required by U.S. Securities and Exchange Commission regulations to include all sales of tangible products, and “services” must include all other sales, including broadcasting and other services activities. In our Management’s Discussion and Analysis of Operations we refer to sales of both spare parts (goods) and related services as sales of “product services,” which is an important part of our operations.

Product services agreements Contractual commitments, with multiple-year terms, to provide specified services for products in our Energy Infrastructure and Technology Infrastructure installed base – for example, monitoring, maintenance, service and spare parts for a gas turbine/generator set installed in a customer’s power plant.

Productivity The rate of increased output for a given level of input, with both output and input measured in constant currency.

Progress collections Payments received from customers as deposits before the associated work is performed or product is delivered.

Qualifying SPEs (QSPEs) These entities are a specific type of Variable Interest Entity defined in SFAS 140, Transfers of Financial Assets to a Qualifying Special Purpose Entity. The activities of a QSPE are significantly limited and entirely specified in the legal documents that established the entity. There also are significant limitations on the types of assets and derivative instruments they may hold and the types and extent of activities and decision-making they may engage in.

Reinsurance A form of insurance that insurance companies buy for their own protection.

Retained interest A portion of a transferred financial asset retained by the transferor that provides rights to receive portions of the cash inflows from that asset.

Return on average shareowners' equity Earnings from continuing operations before accounting changes divided by average total shareowners' equity, excluding effects of discontinued operations (on an annual basis, calculated using a five-point average). Average total shareowners' equity, excluding effects of discontinued operations, as of the end of each of the years in the five-year period ended December 31, 2008, is described in the Supplemental Information section.

Return on average total capital invested For GE, earnings from continuing operations before accounting changes plus the sum of after-tax interest and other financial charges and minority interest, divided by the sum of the averages of total shareowners' equity (excluding effects of discontinued operations), borrowings, mandatorily redeemable preferred stock and minority interest (on an annual basis, calculated using a five-point average). Average total shareowners' equity, excluding effects of discontinued operations as of the end of each of the years in the five-year period ended December 31, 2008, is described in the Supplemental Information section.

Securitization A process whereby loans or other receivables are packaged, underwritten and sold to investors. In a typical transaction, assets are sold to a special purpose entity, which purchases the assets with cash raised through issuance of beneficial interests (usually debt instruments) to third-party investors. Whether or not credit risk associated with the securitized assets is retained by the seller depends on the structure of the securitization. See "Monetization" and "Variable interest entity."

Subprime For purposes of GE Money related discussion, subprime includes credit card, installment and revolving loans to U.S. borrowers whose credit score is less than 660 based upon GE Capital's proprietary scoring models, which add various qualitative and other factors to the base FICO credit score. FICO credit scores are a widely accepted rating of individual consumer creditworthiness.

Turnover Broadly based on the number of times that working capital is replaced during a year. Current receivables turnover is total sales divided by the five-point average balance of GE current receivables. Inventory turnover is total sales divided by a five-point average balance of inventories. See "Working capital."

Unpaid claims and claims adjustment expenses Claims reserves for events that have occurred, including both reported and incurred-but-not-reported (IBNR) reserves, and the expenses of settling such claims.

Variable interest entity Entity defined by Financial Accounting Standards Board Interpretation 46 (Revised), and that must be consolidated by its primary beneficiary. A variable interest entity has one or both of the following characteristics: (1) its equity at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) as a group, the equity investors lack one or more of the following characteristics: (a) direct/indirect ability to make decisions, (b) obligation to absorb expected losses, or (c) right to receive expected residual returns.

Working capital Represents GE current receivables and inventories, less GE accounts payable and progress collections.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information about our global risk management can be found in the Operations – Global Risk Management and Financial Resources and Liquidity – Exchange Rate and Interest Rate Risks sections in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-K Report.

Item 8. Financial Statements and Supplementary Data.

Management’s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With our participation, an evaluation of the effectiveness of our internal control over financial reporting was conducted as of December 31, 2008, based on the framework and criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2008.

Our independent registered public accounting firm has issued an audit report on our internal control over financial reporting. Their report follows.

/s/ Jeffrey R. Immelt	/s/ Keith S. Sherin
Jeffrey R. Immelt	Keith S. Sherin
Chairman of the Board and	Vice Chairman and
Chief Executive Officer	Chief Financial Officer
February 6, 2009	

Report of Independent Registered Public Accounting Firm

To Shareowners and Board of Directors of General Electric Company:

We have audited the accompanying statement of financial position of General Electric Company and consolidated affiliates (“GE”) as of December 31, 2008 and 2007, and the related statements of earnings, changes in shareowners’ equity and cash flows for each of the years in the three-year period ended December 31, 2008. We also have audited GE’s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). GE management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on GE’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the

accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements appearing on pages 69, 71, 72, 74, 76-141 and the Summary of Operating Segments table on page 29 present fairly, in all material respects, the financial position of GE as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, GE maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by COSO.

As discussed in Note 1 to the consolidated financial statements, GE, in 2008, changed its method of accounting for fair value measurements and adopted the fair value option for certain financial assets and financial liabilities, in 2007, changed its methods of accounting for uncertainty in income taxes and for a change or projected change in the timing of cash flows relating to income taxes generated by leveraged lease transactions, and, in 2006, changed its methods of accounting for pension and other postretirement benefits and for share-based compensation.

Our audits of GE's consolidated financial statements were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information appearing on pages 70, 73 and 75 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

/s/ KPMG LLP
KPMG LLP
Stamford, Connecticut
February 6, 2009

Statement of Earnings

For the years ended December 31 (In millions; per-share amounts in dollars)	General Electric Company and consolidated affiliates 2008	2007	2006
Revenues			
Sales of goods	$ 69,100	$ 60,670	$ 55,181
Sales of services	43,669	38,856	36,329
Other income (Note 3)	1,586	3,019	2,154
GECS earnings from continuing operations	–	–	–
GECS revenues from services (Note 4)	68,160	69,943	57,904
Total revenues	182,515	172,488	151,568
Costs and expenses (Note 5)			
Cost of goods sold	54,602	47,309	43,279
Cost of services sold	29,170	25,816	23,494
Interest and other financial charges	26,209	23,762	18,879
Investment contracts, insurance losses and insurance annuity benefits	3,213	3,469	3,213
Provision for losses on financing receivables (Note 13)	7,518	4,431	3,062
Other costs and expenses	42,021	40,173	35,491
Minority interest in net earnings of consolidated affiliates	641	916	862
Total costs and expenses	163,374	145,876	128,280
Earnings from continuing operations before income taxes	19,141	26,612	23,288
Provision for income taxes (Note 7)	(1,052)	(4,155)	(3,944)
Earnings from continuing operations	18,089	22,457	19,344
Earnings (loss) from discontinued operations, net of taxes (Note 2)	(679)	(249)	1,398
Net earnings	17,410	22,208	20,742
Preferred stock dividends declared	(75)	–	–
Net earnings attributable to common shareowners	$ 17,335	$ 22,208	$ 20,742
Per-share amounts (Note 8)			
Earnings from continuing operations			
Diluted earnings per share	$ 1.78	$ 2.20	$ 1.86
Basic earnings per share	$ 1.79	$ 2.21	$ 1.87
Net earnings			
Diluted earnings per share	$ 1.72	$ 2.17	$ 2.00
Basic earnings per share	$ 1.72	$ 2.18	$ 2.00
Dividends declared per common share	$ 1.24	$ 1.15	$ 1.03

See accompanying notes.

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Statement of Earnings (Continued)

For the years ended December 31 (In millions; per-share amounts in dollars)	GE			GECS		
	2008	2007	2006	2008	2007	2006
Revenues						
Sales of goods	$ 67,637	$ 60,374	$ 53,221	$ 1,773	$ 718	$ 2,384
Sales of services	44,377	39,422	36,698	–	–	–
Other income (Note 3)	1,965	3,371	2,307	–	–	–
GECS earnings from continuing operations	7,774	12,417	10,219	–	–	–
GECS revenues from services (Note 4)	–	–	–	69,514	71,218	58,967
Total revenues	121,753	115,584	102,445	71,287	71,936	61,351
Costs and expenses (Note 5)						
Cost of goods sold	53,395	47,103	41,501	1,517	628	2,204
Cost of services sold	29,878	26,382	23,863	–	–	–
Interest and other financial charges	2,153	1,993	1,668	25,116	22,706	17,840
Investment contracts, insurance losses and insurance annuity benefits	–	–	–	3,421	3,647	3,419
Provision for losses on financing receivables (Note 13)	–	–	–	7,518	4,431	3,062
Other costs and expenses	14,401	14,148	12,893	28,085	26,537	22,977
Minority interest in net earnings of consolidated affiliates	410	707	624	231	209	238
Total costs and expenses	100,237	90,333	80,549	65,888	58,158	49,740
Earnings from continuing operations before income taxes	21,516	25,251	21,896	5,399	13,778	11,611
Provision for income taxes (Note 7)	(3,427)	(2,794)	(2,552)	2,375	(1,361)	(1,392)
Earnings from continuing operations	18,089	22,457	19,344	7,774	12,417	10,219
Earnings (loss) from discontinued operations, net of taxes (Note 2)	(679)	(249)	1,398	(719)	(2,116)	439
Net earnings	17,410	22,208	20,742	7,055	10,301	10,658
Preferred stock dividends declared	(75)	–	–	–	–	–
Net earnings attributable to common shareowners	$ 17,335	$ 22,208	$ 20,742	$ 7,055	$ 10,301	$ 10,658

In the consolidating data on this page, “GE” means the basis of consolidation as described in Note 1 to the consolidated financial statements; “GECS” means General Electric Capital Services, Inc. and all of its affiliates and associated companies. Separate information is shown for “GE” and “Financial Services (GECS).” Transactions between GE and GECS have been eliminated from the “General Electric Company and consolidated affiliates” columns on the prior page.

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Consolidated Statement of Changes in Shareowners' Equity

(In millions)	2008	2007	2006
Changes in shareowners' equity (Note 23)			
Balance at January 1	$ 115,559	$ 111,509	$ 108,633
Dividends and other transactions with shareowners	1,873	(23,102)	(17,983)
Other comprehensive income			
Investment securities – net	(3,218)	(1,484)	(223)
Currency translation adjustments – net	(11,007)	4,527	3,649
Cash flow hedges – net	(2,664)	(539)	223
Benefit plans – net	(13,288)	2,566	287
Total other comprehensive income	(30,177)	5,070	3,936
Increases attributable to net earnings	17,410	22,208	20,742
Comprehensive income	(12,767)	27,278	24,678
Cumulative effect of changes in accounting principles	–	(126)	(3,819)
Balance at December 31	$ 104,665	$ 115,559	$ 111,509

See accompanying notes.

Statement of Financial Position

At December 31 (In millions, except share amounts)	General Electric Company and consolidated affiliates 2008	2007
Assets		
Cash and equivalents	$ 48,187	$ 15,731
Investment securities (Note 9)	41,446	45,276
Current receivables (Note 10)	21,411	22,259
Inventories (Note 11)	13,674	12,897
Financing receivables – net (Notes 12 and 13)	365,168	376,123
Other GECS receivables	13,439	16,514
Property, plant and equipment – net (Note 14)	78,530	77,888
Investment in GECS	–	–
Goodwill (Note 15)	81,759	81,116
Other intangible assets – net (Note 15)	14,977	16,142
All other assets (Note 16)	106,899	122,848
Assets of businesses held for sale (Note 17)	10,556	–
Assets of discontinued operations (Note 2)	1,723	8,889
Total assets	$ 797,769	$ 795,683
Liabilities and equity		
Short-term borrowings (Note 18)	$ 193,695	$ 195,100
Accounts payable, principally trade accounts	20,819	21,338
Progress collections and price adjustments accrued	12,536	9,885
Dividends payable	3,340	3,100
Other GE current liabilities	18,220	15,816
Long-term borrowings (Note 18)	330,067	319,013
Investment contracts, insurance liabilities and insurance annuity benefits (Note 19)	34,032	34,068
All other liabilities (Note 20)	64,796	59,316
Deferred income taxes (Note 21)	4,584	12,490
Liabilities of businesses held for sale (Note 17)	636	–
Liabilities of discontinued operations (Note 2)	1,432	1,994
Total liabilities	684,157	672,120
Minority interest in equity of consolidated affiliates (Note 22)	8,947	8,004
Preferred stock (30,000 and 0 shares outstanding at year-end 2008 and 2007, respectively)	–	–
Common stock (10,536,897,000 and 9,987,599,000 shares outstanding at year-end 2008 and 2007, respectively)	702	669
Accumulated gains (losses) – net		
Investment securities	(3,094)	124
Currency translation adjustments	(299)	10,708
Cash flow hedges	(3,332)	(668)
Benefit plans	(15,128)	(1,840)
Other capital	40,390	26,100
Retained earnings	122,123	117,362
Less common stock held in treasury	(36,697)	(36,896)
Total shareowners' equity (Notes 23 and 24)	104,665	115,559

Total liabilities and equity	$ 797,769	$ 795,683

The sum of accumulated gains (losses) on investment securities, currency translation adjustments, cash flow hedges and benefit plans constitutes “Accumulated other comprehensive income,” as shown in Note 23, and was $(21,853) million and $8,324 million at December 31, 2008 and 2007, respectively.
See accompanying notes.

Statement of Financial Position (Continued)

At December 31 (In millions, except share amounts)	GE 2008	GE 2007	GECS 2008	GECS 2007
Assets				
Cash and equivalents	$ 12,090	$ 6,702	$ 37,486	$ 9,439
Investment securities (Note 9)	213	343	41,236	44,941
Current receivables (Note 10)	15,064	15,093	–	–
Inventories (Note 11)	13,597	12,834	77	63
Financing receivables – net (Notes 12 and 13)	–	–	372,456	384,067
Other GECS receivables	–	–	18,636	22,078
Property, plant and equipment – net (Note 14)	14,433	14,142	64,097	63,746
Investment in GECS	53,279	57,676	–	–
Goodwill (Note 15)	56,394	55,689	25,365	25,427
Other intangible assets – net (Note 15)	11,364	11,633	3,613	4,509
All other assets (Note 16)	22,435	40,608	85,721	83,392
Assets of businesses held for sale (Note 17)	–	–	10,556	–
Assets of discontinued operations (Note 2)	64	66	1,659	8,823
Total assets	$ 198,933	$ 214,786	$ 660,902	$ 646,485
Liabilities and equity				
Short-term borrowings (Note 18)	$ 2,375	$ 4,106	$ 193,533	$ 192,420
Accounts payable, principally trade accounts	11,699	11,120	13,882	14,714
Progress collections and price adjustments accrued	13,058	10,374	–	–
Dividends payable	3,340	3,100	–	–
Other GE current liabilities	18,284	15,816	–	–
Long-term borrowings (Note 18)	9,827	11,656	321,068	308,502
Investment contracts, insurance liabilities and insurance annuity benefits (Note 19)	–	–	34,369	34,359
All other liabilities (Note 20)	32,767	32,859	32,090	26,522
Deferred income taxes (Note 21)	(3,949)	3,391	8,533	9,099
Liabilities of businesses held for sale (Note 17)	–	–	636	–
Liabilities of discontinued operations (Note 2)	189	302	1,243	1,692
Total liabilities	87,590	92,724	605,354	587,308
Minority interest in equity of consolidated affiliates (Note 22)	6,678	6,503	2,269	1,501
Preferred stock (30,000 and 0 shares outstanding at year-end 2008 and 2007, respectively)	–	–	–	–
Common stock (10,536,897,000 and 9,987,599,000 shares outstanding at year-end 2008 and 2007, respectively)	702	669	1	1
Accumulated gains (losses) – net				
Investment securities	(3,094)	124	(3,097)	110
Currency translation adjustments	(299)	10,708	(1,258)	7,472
Cash flow hedges	(3,332)	(668)	(3,134)	(727)
Benefit plans	(15,128)	(1,840)	(367)	(105)
Other capital	40,390	26,100	18,079	12,574
Retained earnings	122,123	117,362	43,055	38,351
Less common stock held in treasury	(36,697)	(36,896)	–	–

Total shareowners' equity (Notes 23 and 24)	104,665	115,559	53,279	57,676
Total liabilities and equity	$ 198,933	$ 214,786	$ 660,902	$ 646,485

In the consolidating data on this page, "GE" means the basis of consolidation as described in Note 1 to the consolidated financial statements; "GECS" means General Electric Capital Services, Inc. and all of its affiliates and associated companies. Separate information is shown for "GE" and "Financial Services (GECS)." Transactions between GE and GECS have been eliminated from the "General Electric Company and consolidated affiliates" columns on the prior page.

Statement of Cash Flows

For the years ended December 31 (In millions)	General Electric Company and consolidated affiliates 2008	2007	2006
Cash flows – operating activities			
Net earnings	$ 17,410	$ 22,208	$ 20,742
Loss (earnings) from discontinued operations	679	249	(1,398)
Adjustments to reconcile net earnings to cash provided from operating activities			
Depreciation and amortization of property, plant and equipment	11,492	10,275	8,457
Earnings from continuing operations retained by GECS	–	–	–
Deferred income taxes	(1,284)	657	1,639
Decrease (increase) in GE current receivables	(24)	(868)	(2,194)
Decrease (increase) in inventories	(719)	(1,562)	(1,514)
Increase (decrease) in accounts payable	(1,078)	(997)	(276)
Increase in GE progress collections	2,827	4,622	642
Provision for losses on GECS financing receivables	7,518	4,431	3,062
All other operating activities	11,020	927	3,352
Cash from operating activities – continuing operations	47,841	39,942	32,512
Cash from (used for) operating activities – discontinued operations	760	3,380	(1,057)
Cash from operating activities	48,601	43,322	31,455
Cash flows – investing activities			
Additions to property, plant and equipment	(16,010)	(17,803)	(15,788)
Dispositions of property, plant and equipment	10,975	8,457	6,795
Net increase in GECS financing receivables	(17,484)	(44,237)	(37,146)
Proceeds from sales of discontinued operations	5,423	11,574	11,009
Proceeds from principal business dispositions	4,986	2,746	1,883
Payments for principal businesses purchased	(28,110)	(17,215)	(11,573)
All other investing activities	195	(9,910)	(6,053)
Cash used for investing activities – continuing operations	(40,025)	(66,388)	(50,873)
Cash from (used for) investing activities – discontinued operations	(876)	(3,116)	(1,774)
Cash used for investing activities	(40,901)	(69,504)	(52,647)
Cash flows – financing activities			
Net increase (decrease) in borrowings (maturities of 90 days or less)	(34,221)	2,063	4,969
Newly issued debt (maturities longer than 90 days)	122,959	100,869	88,364
Repayments and other reductions (maturities longer than 90 days)	(69,050)	(49,826)	(49,346)
Proceeds from issuance of preferred stock and warrants	2,965	–	–
Proceeds from issuance of common stock	12,006	–	–
Net purchases of GE shares for treasury	(1,249)	(12,319)	(8,554)
Dividends paid to shareowners	(12,408)	(11,492)	(10,420)
All other financing activities	3,638	(1,204)	(1,174)

Cash from (used for) financing activities – continuing operations	24,640	28,091	23,839
Cash from (used for) financing activities – discontinued operations	(4)	(154)	(172)
Cash from (used for) financing activities	24,636	27,937	23,667
Increase (decrease) in cash and equivalents during year	32,336	1,755	2,475
Cash and equivalents at beginning of year	16,031	14,276	11,801
Cash and equivalents at end of year	48,367	16,031	14,276
Less cash and equivalents of discontinued operations at end of year	180	300	190
Cash and equivalents of continuing operations at end of year	$ 48,187	$ 15,731	$ 14,086
Supplemental disclosure of cash flows information			
Cash paid during the year for interest	$ (25,853)	$ (23,340)	$ (18,438)
Cash recovered (paid) during the year for income taxes	(3,237)	(2,912)	(2,869)

See accompanying notes.

Statement of Cash Flows (Continued)

For the years ended December 31 (In millions)	GE 2008	GE 2007	GE 2006	GECS 2008	GECS 2007	GECS 2006
Cash flows – operating activities						
Net earnings	$ 17,410	$ 22,208	$ 20,742	$ 7,055	$ 10,301	$ 10,658
Loss (earnings) from discontinued operations	679	249	(1,398)	719	2,116	(439)
Adjustments to reconcile net earnings to cash provided from operating activities						
Depreciation and amortization of property, plant and equipment	2,162	2,149	1,953	9,330	8,126	6,504
Earnings from continuing operations retained by GECS	(5,423)	(5,126)	(372)	–	–	–
Deferred income taxes	(417)	564	703	(867)	93	936
Decrease (increase) in GE current receivables	(168)	14	760	–	–	–
Decrease (increase) in inventories	(524)	(1,496)	(1,458)	(14)	2	(23)
Increase (decrease) in accounts payable	233	(1,073)	289	(1,045)	485	(154)
Increase in GE progress collections	2,896	4,620	927	–	–	–
Provision for losses on GECS financing receivables	–	–	–	7,518	4,431	3,062
All other operating activities	2,238	1,192	1,626	8,508	(539)	1,035
Cash from operating activities – continuing operations	19,086	23,301	23,772	31,204	25,015	21,579
Cash from (used for) operating activities – discontinued operations	(5)	(857)	855	765	4,039	(2,041)
Cash from operating activities	19,081	22,444	24,627	31,969	29,054	19,538
Cash flows – investing activities						
Additions to property, plant and equipment	(2,996)	(2,968)	(2,913)	(13,321)	(15,217)	(13,168)
Dispositions of property, plant and equipment	–	–	–	10,975	8,457	6,795
Net increase in GECS financing receivables	–	–	–	(17,375)	(44,164)	(40,270)
Proceeds from sales of discontinued operations	203	10,826	1,987	5,220	117	9,022
Proceeds from principal business dispositions	58	1,047	1,497	4,928	1,699	386
Payments for principal businesses purchased	(3,149)	(9,645)	(4,274)	(24,961)	(7,570)	(7,299)
All other investing activities	(5,176)	(1,697)	100	5,979	(8,730)	(5,995)
Cash used for investing activities – continuing operations	(11,060)	(2,437)	(3,603)	(28,555)	(65,408)	(50,529)

Cash from (used for) investing activities – discontinued operations	5	1,003	(914)	(881)	(3,921)	(731)
Cash used for investing activities	(11,055)	(1,434)	(4,517)	(29,436)	(69,329)	(51,260)
Cash flows – financing activities						
Net increase (decrease) in borrowings (maturities of 90 days or less)	(2,152)	(3,284)	1,233	(31,282)	3,397	6,470
Newly issued debt (maturities longer than 90 days)	136	8,751	130	122,507	92,019	88,280
Repayments and other reductions (maturities longer than 90 days)	(1,936)	(298)	(93)	(67,114)	(49,528)	(49,253)
Proceeds from issuance of preferred stock and warrants	2,965	–	–	–	–	–
Proceeds from issuance of common stock	12,006	–	–	–	–	–
Net purchases of GE shares for treasury	(1,249)	(12,319)	(8,554)	–	–	–
Dividends paid to shareowners	(12,408)	(11,492)	(10,420)	(2,351)	(7,291)	(9,847)
All other financing activities	–	–	–	3,638	(1,204)	(1,174)
Cash from (used for) financing activities – continuing operations	(2,638)	(18,642)	(17,704)	25,398	37,393	34,476
Cash from (used for) financing activities – discontinued operations	–	(146)	59	(4)	(8)	(231)
Cash from (used for) financing activities	(2,638)	(18,788)	(17,645)	25,394	37,385	34,245
Increase (decrease) in cash and equivalents during year	5,388	2,222	2,465	27,927	(2,890)	2,523
Cash and equivalents at beginning of year	6,702	4,480	2,015	9,739	12,629	10,106
Cash and equivalents at end of year	12,090	6,702	4,480	37,666	9,739	12,629
Less cash and equivalents of discontinued operations at end of year	–	–	–	180	300	190
Cash and equivalents of continuing operations at end of year	$ 12,090	$ 6,702	$ 4,480	$ 37,486	$ 9,439	$ 12,439
Supplemental disclosure of cash flows information						
Cash paid during the year for interest	$ (1,190)	$ (1,466)	$ (1,343)	$ (24,663)	$ (21,874)	$ (17,095)
Cash recovered (paid) during the year for income taxes	(2,627)	(4,036)	(2,203)	(610)	1,124	(666)

In the consolidating data on this page, “GE” means the basis of consolidation as described in Note 1 to the consolidated financial statements; “GECS” means General Electric Capital Services, Inc. and all of its affiliates and associated companies. Separate information is shown for “GE” and “Financial Services (GECS).” Transactions between GE and GECS have been eliminated from the “General Electric Company and consolidated affiliates” columns on the prior page.

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Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles

Our financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP).

Consolidation

Our financial statements consolidate all of our affiliates – companies that we control and in which we hold a majority voting interest. Associated companies are companies that we do not control but over which we have significant influence, most often because we hold a shareholder voting position of 20% to 50%. Results of associated companies are presented on a one-line basis. Investments in and advances to associated companies are presented on a one-line basis in the caption “All other assets” in our Statement of Financial Position, net of allowance for losses that represents our best estimate of probable losses inherent in such assets.

Financial Statement Presentation

We have reclassified certain prior-year amounts to conform to the current-year’s presentation.

Financial data and related measurements are presented in the following categories:

- GE – This represents the adding together of all affiliates other than General Electric Capital Services, Inc. (GECS), whose operations are presented on a one-line basis.

- GECS – This affiliate owns all of the common stock of General Electric Capital Corporation (GE Capital). GE Capital and its respective affiliates are consolidated in the accompanying GECS columns and constitute the majority of its business.

- Consolidated – This represents the adding together of GE and GECS, giving effect to the elimination of transactions between GE and GECS.

- Operating Segments – These comprise our five businesses, focused on the broad markets they serve: Energy Infrastructure, Technology Infrastructure, NBC Universal, Capital Finance and Consumer & Industrial. Prior period information has been reclassified to be consistent with the current organization.

Unless otherwise indicated, information in these notes to consolidated financial statements relates to continuing operations. Certain of our operations have been presented as discontinued. See Note 2.

The effects of translating to U.S. dollars the financial statements of non-U.S. affiliates whose functional currency is the local currency are included in shareowners’ equity. Asset and liability accounts are translated at year-end exchange rates, while revenues and expenses are translated at average rates for the respective periods.

Preparing financial statements in conformity with U.S. GAAP requires us to make estimates based on assumptions about current, and for some estimates future, economic and market conditions (for example, unemployment, market liquidity, the real estate market, etc.), which affect reported amounts and related disclosures in our financial statements. Although our current estimates contemplate current conditions and how we expect them to change in the future, as appropriate, it is reasonably possible that in 2009 actual conditions could be worse than anticipated in those

estimates, which could materially affect our results of operations and financial position. Among other effects, such changes could result in future impairments of investment securities, goodwill, intangibles and long-lived assets, incremental losses on financing receivables, establishment of valuation allowances on deferred tax assets and increased tax liabilities.

Sales of Goods and Services

We record all sales of goods and services only when a firm sales agreement is in place, delivery has occurred or services have been rendered and collectibility of the fixed or determinable sales price is reasonably assured.

Arrangements for the sale of goods and services sometimes include multiple components. Most of our multiple component arrangements involve the sale of goods and services in the Technology Infrastructure segment. Our arrangements with multiple components usually involve future service deliverables such as installation, training or the future delivery of ancillary equipment. In such agreements, the amount assigned to each component is based on the total price and the undelivered component's objectively determined fair value, determined from sources such as the separate selling price for that or a similar component or from competitor prices for similar components. If fair value of an undelivered component cannot be satisfactorily determined, we defer revenue until all multiple components are delivered.

Except for goods sold under long-term agreements, we recognize sales of goods under the provisions of U.S. Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 104, Revenue Recognition. We often sell consumer products, home videos and computer hardware and software products with a right of return. We use our accumulated experience to estimate and provide for such returns when we record the sale. In situations where arrangements include customer acceptance provisions based on seller or customer-specified objective criteria, we recognize revenue when formal acceptance occurs or we have reliably demonstrated that all specified acceptance criteria have been met. In arrangements where we provide goods for trial and evaluation purposes, we only recognize revenue after customer acceptance occurs. Unless otherwise noted, we do not provide for anticipated losses before we record sales.

Certain of our sales of goods and services involve inconsequential or perfunctory performance obligations. These obligations can include non-essential installation or training, and in some instances provision of product manuals and limited technical product support. When the only remaining undelivered performance obligation under an arrangement is inconsequential or perfunctory, we recognize revenue on the total contract and provide for the cost of the unperformed obligation.

We recognize revenue on agreements for sales of goods and services under power generation unit and uprate contracts; nuclear fuel assemblies; larger oil drilling equipment projects; aeroderivative unit contracts; military development contracts; and long-term construction projects, including construction of information technology systems in our Healthcare business, under American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Under SOP 81-1, we estimate total contract revenue net of price concessions as well as total contract costs. For goods sold under power generation unit and uprate contracts, nuclear fuel assemblies, aeroderivative unit contracts and military development contracts, we recognize sales as we complete major contract-specified deliverables, most often when customers receive title to the goods or accept the services as performed. For larger oil drilling equipment projects and long-term construction projects, we recognize sales based on our progress towards contract completion measured by actual costs incurred in relation to our estimate of total expected costs. We measure SOP 81-1 revenues by applying our contract-specific estimated margin rates to incurred costs. We routinely update our estimates of future costs for agreements in process and report any cumulative effects of such adjustments in current operations. We provide for any loss that we expect to incur on these agreements when that loss is probable.

We recognize revenue upon delivery for sales of aircraft engines, military propulsion equipment and related spare parts not sold under long-term product services agreements. Delivery of commercial engines, non-U.S. military equipment and all related spare parts occurs on shipment; delivery of military propulsion equipment sold to the U.S. Government or agencies thereof occurs upon receipt of a Material Inspection and Receiving Report, DD Form 250 or Memorandum of Shipment. Commercial aircraft engines are complex aerospace equipment manufactured to customer order under a variety of sometimes-complex, long-term agreements. We measure sales of commercial aircraft engines by applying our contract-specific estimated margin rates to incurred costs. We routinely update our estimates of future costs for commercial aircraft engine agreements in process and report any cumulative effects of such adjustments in current operations. We measure revenue for military propulsion equipment and spare parts not subject to long-term

product services agreements based on the specific contract on a specifically-measured output basis. We provide for any loss that we expect to incur on these agreements when that loss is probable; consistent with industry practice, for commercial aircraft engines, we make such provision only if such losses are not recoverable from future highly probable sales of spare parts for those engines.

We sell product services under long-term agreements in our Technology Infrastructure and Energy Infrastructure segments, principally in Aviation, Energy and Transportation, where costs of performing services are incurred on other than a straight-line basis. We also sell product services in Healthcare, where such costs generally are expected to be on a straight-line basis. These agreements are accounted for under Financial Accounting Standards Board (FASB) Technical Bulletin (FTB) 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts. For the Aviation, Energy and Transportation FTB 90-1 agreements, we recognize related sales based on the extent of our progress towards completion measured by actual costs incurred in relation to total expected costs. We routinely update our estimates of future costs for agreements in process and report any cumulative effects of such adjustments in current operations. For the Healthcare FTB 90-1 agreements, we recognize revenues on a straight-line basis and expense related costs as incurred. We provide for any loss that we expect to incur on any of these agreements when that loss is probable.

NBC Universal records broadcast and cable television and Internet advertising sales when advertisements are aired, net of provision for any viewer shortfalls (make goods). We record sales from theatrical distribution of films as the films are exhibited; sales of home videos, net of a return provision, when the videos are delivered to and available for sale by retailers; fees from cable/satellite operators when services are provided; and licensing of film and television programming when we make the material available for airing.

GECS Revenues from Services (Earned Income)

We use the interest method to recognize income on all loans. Interest on loans includes origination, commitment and other non-refundable fees related to funding (recorded in earned income on the interest method). We stop accruing interest at the earlier of the time at which collection of an account becomes doubtful or the account becomes 90 days past due. We recognize interest income on nonearning loans either as cash is collected or on a cost-recovery basis as conditions warrant. We resume accruing interest on nonearning, non-restructured commercial loans only when (a) payments are brought current according to the loan’s original terms and (b) future payments are reasonably assured. When we agree to restructured terms with the borrower, we resume accruing interest only when reasonably assured that we will recover full contractual payments, and such loans pass underwriting reviews equivalent to those applied to new loans. We resume accruing interest on nonearning consumer loans when the customer’s account is less than 90 days past due.

We recognize financing lease income on the interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values at the date of lease inception represent our initial estimates of the fair value of the leased assets at the expiration of the lease and are based primarily on independent appraisals, which are updated periodically. Guarantees of residual values by unrelated third parties are considered part of minimum lease payments. Significant assumptions we use in estimating residual values include estimated net cash flows over the remaining lease term, anticipated results of future remarketing, and estimated future component part and scrap metal prices, discounted at an appropriate rate.

We recognize operating lease income on a straight-line basis over the terms of underlying leases.

Fees include commitment fees related to loans that we do not expect to fund and line-of-credit fees. We record these fees in earned income on a straight-line basis over the period to which they relate. We record syndication fees in earned income at the time related services are performed, unless significant contingencies exist.

Depreciation and Amortization

The cost of GE manufacturing plant and equipment is depreciated over its estimated economic life. U.S. assets are depreciated using an accelerated method based on a sum-of-the-years digits formula; non-U.S. assets are generally depreciated on a straight-line basis.

The cost of GECS equipment leased to others on operating leases is depreciated on a straight-line basis to estimated residual value over the lease term or over the estimated economic life of the equipment.

The cost of GECS acquired real estate investments is depreciated on a straight-line basis to the estimated salvage value over the expected useful life or the estimated proceeds upon sale of the investment at the end of the expected holding period if that approach produces a higher measure of depreciation expense.

The cost of individually significant customer relationships is amortized in proportion to estimated total related sales; cost of other intangible assets is generally amortized on a straight-line basis over the asset's estimated economic life. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. See Notes 14 and 15.

NBC Universal Film and Television Costs

We defer film and television production costs, including direct costs, production overhead, development costs and interest. We do not defer costs of exploitation, which principally comprise costs of film and television program marketing and distribution. We amortize deferred film and television production costs, as well as associated participation and residual costs, on an individual production basis using the ratio of the current period's gross revenues to estimated total remaining gross revenues from all sources; we state such costs at the lower of amortized cost or fair value. Estimates of total revenues and costs are based on anticipated release patterns, public acceptance and historical results for similar products. We defer the costs of acquired broadcast material, including rights to material for use on NBC Universal's broadcast and cable/satellite television networks, at the earlier of acquisition or when the license period begins and the material is available for use. We amortize acquired broadcast material and rights when we broadcast the associated programs; we state such costs at the lower of amortized cost or net realizable value.

Losses on Financing Receivables

Our allowance for losses on financing receivables represents our best estimate of probable losses inherent in the portfolio. Our method of calculating estimated losses depends on the size, type and risk characteristics of the related receivables. Write-offs are deducted from the allowance for losses and subsequent recoveries are added. Impaired financing receivables are written down to the extent that we judge principal to be uncollectible.

Our portfolio consists entirely of homogenous consumer loans and of commercial loans and leases. The underlying assumptions, estimates and assessments we use to provide for losses are continually updated to reflect our view of current conditions. Changes in such estimates can significantly affect the allowance and provision for losses. It is possible to experience credit losses that are different from our current estimates.

Our consumer loan portfolio consists of smaller balance, homogenous loans including card receivables, installment loans, auto loans and leases and residential mortgages. We collectively evaluate each portfolio for impairment quarterly. The allowance for losses on these receivables is established through a process that estimates the probable losses inherent in the portfolio based upon statistical analyses of portfolio data. These analyses include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with other analyses that reflect current trends and conditions. We also consider overall portfolio indicators including nonearning loans, trends in loan volume and lending terms, credit policies and other observable environmental factors.

We write off unsecured closed-end installment loans at 120 days contractually past due and unsecured open-ended revolving loans at 180 days contractually past due. We write down consumer loans secured by collateral other than residential real estate when such loans are 120 days past due. Consumer loans secured by residential real estate (both revolving and closed-end loans) are written down to the fair value of collateral, less costs to sell, no later than when they become 360 days past due. During 2007, we conformed our reserving methodology in our residential mortgage loan portfolios. Unsecured consumer loans in bankruptcy are written off within 60 days of notification of filing by the bankruptcy court or within contractual write-off periods, whichever occurs earlier.

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Our commercial loan and lease portfolio consists of a variety of loans and leases, including both larger balance, non-homogenous loans and leases and smaller balance homogenous commercial and equipment loans and leases. Losses on such loans and leases are recorded when probable and estimable. We routinely evaluate our entire portfolio for potential specific credit or collection issues that might indicate an impairment. For larger balance, non-homogenous loans and leases, this survey first considers the financial status, payment history, collateral value, industry conditions and guarantor support related to specific customers. Any delinquencies or bankruptcies are indications of potential impairment requiring further assessment of collectibility. We routinely receive financial as well as rating agency reports on our customers, and we elevate for further attention those customers whose operations we judge to be marginal or deteriorating. We also elevate customers for further attention when we observe a decline in collateral values for asset-based loans. While collateral values are not always available, when we observe such a decline, we evaluate relevant markets to assess recovery alternatives – for example, for real estate loans, relevant markets are local; for aircraft loans, relevant markets are global. We provide allowances based on our evaluation of all available information, including expected future cash flows, fair value of collateral, net of disposal costs, and the secondary market value of the financing receivables. After providing for specific incurred losses, we then determine an allowance for losses that have been incurred in the balance of the portfolio but cannot yet be identified to a specific loan or lease. This estimate is based on historical and projected default rates and loss severity, and it is prepared by each respective line of business.

Experience is not available with new products; therefore, while we are developing that experience, we set loss allowances based on our experience with the most closely analogous products in our portfolio.

When we repossess collateral in satisfaction of a loan, we write down the receivable against the allowance for losses. Repossessed collateral is included in the caption “All other assets” in the Statement of Financial Position and carried at the lower of cost or estimated fair value less costs to sell.

The remainder of our commercial loans and leases are portfolios of smaller balance homogenous commercial and equipment positions that we evaluate collectively by portfolio for impairment based upon various statistical analyses considering historical losses and aging, as well as our view on current market and economic conditions.

Partial Sales of Business Interests

We record gains or losses on sales of their own shares by affiliates except when realization of gains is not reasonably assured, in which case we record the results in shareowners’ equity. We record gains or losses on sales of interests in commercial and military engine and aeroderivative equipment programs.

Cash and Equivalents

Debt securities and money market instruments with original maturities of three months or less are included in cash equivalents unless designated as available-for-sale and classified as investment securities.

Investment Securities

We report investments in debt and marketable equity securities, and equity securities in our insurance portfolio, at fair value. See Note 28 for further information on fair value. Unrealized gains and losses on available-for-sale investment securities are included in shareowners’ equity, net of applicable taxes and other adjustments. We regularly review investment securities for impairment using both quantitative and qualitative criteria. Quantitative criteria include the length of time and magnitude of the amount that each security is in an unrealized loss position and, for securities with fixed maturities, whether the issuer is in compliance with terms and covenants of the security. Qualitative criteria include the financial health of and specific prospects for the issuer, as well as our intent and ability to hold the security

to maturity or until forecasted recovery. Unrealized losses that are other than temporary are recognized in earnings. Realized gains and losses are accounted for on the specific identification method. Unrealized gains and losses on investment securities classified as trading and certain retained interests are included in earnings.

Inventories

All inventories are stated at the lower of cost or realizable values. Cost for a significant portion of GE U.S. inventories is determined on a last-in, first-out (LIFO) basis. Cost of other GE inventories is determined on a first-in, first-out (FIFO) basis. LIFO was used for 40% and 41% of GE inventories at December 31, 2008 and 2007, respectively. GECS inventories consist of finished products held for sale; cost is determined on a FIFO basis.

Intangible Assets

We do not amortize goodwill, but test it at least annually for impairment using a fair value approach at the reporting unit level. A reporting unit is the operating segment, or a business one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. We recognize an impairment charge if the carrying amount of a reporting unit exceeds its fair value and the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill. We use discounted cash flows to establish fair values. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. When all or a portion of a reporting unit is disposed of, goodwill is allocated to the gain or loss on disposition based on the relative fair values of the business disposed of and the portion of the reporting unit that will be retained.

We amortize the cost of other intangibles over their estimated useful lives unless such lives are deemed indefinite. The cost of intangible assets is generally amortized on a straight-line basis over the asset's estimated economic life, except that individually significant customer-related intangible assets are amortized in relation to total related sales. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested annually for impairment and written down to fair value as required.

GECS Investment Contracts, Insurance Liabilities and Insurance Annuity Benefits

Certain entities, which we consolidate, provide guaranteed investment contracts to states, municipalities and municipal authorities.

Our insurance activities also include providing insurance and reinsurance for life and health risks and providing certain annuity products. Three product groups are provided: traditional insurance contracts, investment contracts and universal life insurance contracts. Insurance contracts are contracts with significant mortality and/or morbidity risks, while investment contracts are contracts without such risks. Universal life insurance contracts are a particular type of long-duration insurance contract whose terms are not fixed and guaranteed.

For short-duration insurance contracts, including accident and health insurance, we report premiums as earned income over the terms of the related agreements, generally on a pro-rata basis. For traditional long-duration insurance contracts including term, whole life and annuities payable for the life of the annuitant, we report premiums as earned income when due.

Premiums received on investment contracts (including annuities without significant mortality risk) and universal life contracts are not reported as revenues but rather as deposit liabilities. We recognize revenues for charges and assessments on these contracts, mostly for mortality, contract initiation, administration and surrender. Amounts credited to policyholder accounts are charged to expense.

Liabilities for traditional long-duration insurance contracts represent the present value of such benefits less the present value of future net premiums based on mortality, morbidity, interest and other assumptions at the time the policies were issued or acquired. Liabilities for investment contracts and universal life policies equal the account value, that is, the amount that accrues to the benefit of the contract or policyholder including credited interest and assessments through the financial statement date.

Liabilities for unpaid claims and claims adjustment expenses represent our best estimate of the ultimate obligations for reported and incurred-but-not-reported claims and the related estimated claim settlement expenses. Liabilities for

unpaid claims and claims adjustment expenses are continually reviewed and adjusted through current operations.

Accounting Changes

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS 157), Fair Value Measurements, for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. See Note 28.

Effective January 1, 2008, we adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. Upon adoption, we elected to report $172 million of commercial mortgage loans at fair value in order to recognize them on the same accounting basis (measured at fair value through earnings) as the derivatives economically hedging these loans. See Note 28.

On January 1, 2007, we adopted FASB Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes, and FASB Staff Position (FSP) FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction. Among other things, FIN 48 requires application of a "more likely than not" threshold to the recognition and derecognition of tax positions. FSP FAS 13-2 requires recalculation of returns on leveraged leases when there is a change in the timing or projected timing of cash flows relating to income taxes associated with such leases. The January 1, 2007 transition reduced our retained earnings by $126 million, $49 million associated with FIN 48 and $77 million with FSP FAS 13-2. Of this total, $89 million was a decrease in goodwill and $77 million was a decrease in financing receivables – net, partially offset by a $40 million decrease in income tax liabilities.

On January 1, 2007, we adopted SFAS 155, Accounting for Certain Hybrid Financial Instruments. This statement amended SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended, to include within its scope prepayment features in newly created or acquired retained interests related to securitizations. SFAS 155 changed the basis on which we recognize earnings on these retained interests from level yield to fair value. See Notes 9 and 30.

We adopted SFAS 123 (Revised 2004), Share-Based Payment (SFAS 123R) and related FSPs, effective January 1, 2006. Among other things, SFAS 123R requires expensing the fair value of stock options, a previously optional accounting method that we adopted voluntarily in 2002, and classification of excess tax benefits associated with share-based compensation deductions as cash from financing activities rather than cash from operating activities. We chose the modified prospective transition method, which requires that the new guidance be applied to the unvested portion of all outstanding stock option grants as of January 1, 2006, and to new grants after that date. We further applied the alternative transition method provided in FSP FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. The transitional effects of SFAS 123R and related FSPs consisted of a reduction in net earnings of $10 million for the year ended December 31, 2006, to expense the unvested portion of options granted in 2001; and classification of $173 million related to excess tax benefits from share-based compensation deductions as cash from financing activities in our Statement of Cash Flows beginning in 2006, which previously would have been included in cash from operating activities.

SFAS 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, became effective for us as of December 31, 2006, and requires recognition of an asset or liability in the statement of financial position reflecting the funded status of pension and other postretirement benefit plans such as retiree health and life, with current-year changes in the funded status recognized in shareowners' equity. SFAS 158 did not change the existing criteria for measurement of periodic benefit costs, plan assets or benefit obligations. The incremental effect of the initial adoption of SFAS 158 reduced our shareowners' equity at December 31, 2006, by $3,819 million.

On December 12, 2008, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. The primary change in reporting that results from the FSP, which we adopted in the fourth quarter of 2008, is the requirement to estimate cash flows based on management's best estimate rather than based on market participant assumptions.

NOTE 2. DISCONTINUED OPERATIONS

Discontinued operations comprised our Japanese personal loan business (Lake) and our Japanese mortgage and card businesses, excluding our minority ownership in GE Nissen Credit Co., Ltd. (GE Money Japan), our U.S. mortgage business (WMC), Plastics, Advanced Materials, GE Life, Genworth Financial, Inc. (Genworth) and most of GE Insurance Solutions Corporation (GE Insurance Solutions). Associated results of operations, financial position and cash flows are separately reported for all periods presented.

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GE Money Japan

During the third quarter of 2007, we committed to a plan to sell Lake upon determining that, despite restructuring, Japanese regulatory limits for interest charges on unsecured personal loans did not permit us to earn an acceptable return. As a result, we recognized an after-tax loss of $908 million in 2007. During 2008, we completed the sale of GE Money Japan, which included Lake, along with our Japanese mortgage and card businesses, excluding our minority ownership in GE Nissen Credit Co., Ltd. In connection with the transaction, GE Money Japan reduced the proceeds on the sale for estimated interest refund claims in excess of the statutory interest rate. Proceeds from the sale may be increased or decreased based on the actual claims experienced in accordance with terms specified in the agreement, and will not be adjusted unless claims exceed approximately $3,000 million. Estimated claims are not expected to exceed those levels and are based on our historical claims experience and the estimated future requests, taking into consideration the ability and likelihood of customers to make claims and other industry risk factors. However, uncertainties around the status of laws and regulations and lack of certain information related to the individual customers make it difficult to develop a meaningful estimate of the aggregate claims exposure. We review our estimated exposure quarterly, and make adjustments when required. To date, there have been no adjustments to sale proceeds for this matter. In connection with this sale, and primarily related to our Japanese mortgage and card businesses, we recorded an incremental $361 million loss in 2008. GE Money Japan revenues from discontinued operations were $763 million, $1,307 million and $1,715 million in 2008, 2007 and 2006, respectively. In total, GE Money Japan losses from discontinued operations, net of taxes, were $651 million and $1,220 million in 2008 and 2007, respectively, compared with earnings of $247 million in 2006.

WMC

During the fourth quarter of 2007, we completed the sale of our U.S. mortgage business. As a result, we recognized an after-tax loss of $62 million in 2007. In connection with the transaction, WMC retained certain obligations related to loans sold prior to the disposal of the business, including WMC’s contractual obligations to repurchase previously sold loans as to which there was an early payment default or with respect to which certain contractual representations and warranties were not met. Reserves related to these obligations were $244 million at December 31, 2008, and $265 million at December 31, 2007. The amount of these reserves is based upon pending and estimated future loan repurchase requests, the estimated percentage of loans validly tendered for repurchase, and our estimated losses on loans repurchased. Based on our historical experience, we estimate that a small percentage of the total loans we originated and sold will be tendered for repurchase, and of those tendered, only a limited amount will qualify as “validly tendered,” meaning the loans sold did not satisfy specified contractual obligations. The amount of our current reserve represents our best estimate of losses with respect to our repurchase obligations. However, actual losses could exceed our reserve amount, if actual claim rates, valid tenders or losses we incur on repurchased loans, are higher than historically observed. WMC revenues from discontinued operations were $(71) million, $(1,424) million and $536 million in 2008, 2007 and 2006, respectively. In total, WMC’s losses from discontinued operations, net of taxes, were $41 million and $987 million in 2008 and 2007, respectively, compared with earnings of $29 million in 2006.

Plastics and Advanced Materials

During the third quarter of 2007, we completed the sale of our Plastics business to Saudi Basic Industries Corporation for $11,577 million in cash. We sold this business because of its cyclicality, rising costs of natural gas and raw materials, and the decision to redeploy capital resources into higher-growth businesses. Also, during the fourth quarter of 2006, we sold our Advanced Materials business. As a result of these sales, we recognized after-tax gains of $21 million, $1,578 million and $441 million during 2008, 2007 and 2006, respectively. Plastics and Advanced Materials revenues from discontinued operations were $4,286 million and $8,795 million in 2007 and 2006, respectively. In total, Plastics and Advanced Materials earnings from discontinued operations, net of taxes, were $40 million, $1,867 million and $959 million in 2008, 2007 and 2006, respectively.

GE Life

During the fourth quarter of 2006, we completed the sale of GE Life, our U.K.-based life insurance operation, to Swiss Reinsurance Company (Swiss Re) for $910 million. As a result, we recognized after-tax losses of $3 million in both 2008 and 2007, and $267 million in 2006. GE Life revenues from discontinued operations were $2,096 million in 2006. In total, GE Life losses from discontinued operations, net of taxes, were $3 million in both 2008 and 2007, and $178 million in 2006.

GE Insurance Solutions

During the second quarter of 2006, we completed the sale of the property and casualty insurance and reinsurance businesses and the European life and health operations of GE Insurance Solutions to Swiss Re for $9,297 million, including the assumption of $1,700 million of debt. We received $5,359 million in cash and $2,238 million of newly issued Swiss Re common stock, representing a 9% interest in Swiss Re. As a result of the exit, we recognized earnings of $1 million and $16 million in 2008 and 2007, compared with losses of $134 million in 2006. GE Insurance Solutions revenues from discontinued operations were $2,815 million in 2006. In total, GE Insurance Solutions loss from discontinued operations, net of taxes, was $15 million in 2008, compared with earnings of $15 million and $148 million in 2007 and 2006, respectively.

Genworth

During the first quarter of 2006, we completed the sale of our remaining 18% investment in Genworth through a secondary public offering of 71 million shares of Class A Common Stock and direct sale to Genworth of 15 million shares of Genworth Class B Common Stock. As a result of initial and secondary public offerings, we recognized after-tax gains of $3 million, $85 million (primarily from a tax adjustment related to the 2004 initial public offering) and $220 million in 2008, 2007 and 2006, respectively. Genworth revenues from discontinued operations were $5 million in 2006. In total, Genworth loss from discontinued operations, net of taxes, was $9 million in 2008, compared with earnings of $79 million and $193 million in 2007 and 2006, respectively.

Summarized financial information for discontinued GE industrial operations is shown below.

(In millions)	2008	2007	2006
Operations			
Total revenues	$ –	$ 4,286	$ 8,795
Earnings from discontinued operations before income taxes	$ –	$ 233	$ 577
Income tax benefit (expense)	19	56	(59)
Earnings from discontinued operations before disposal, net of taxes	$ 19	$ 289	$ 518
Disposal			
Gain on disposal before income taxes	$ 21	$ 2,362	$ 357
Income tax benefit (expense)	–	(784)	84
Gain on disposal, net of taxes	$ 21	$ 1,578	$ 441
Earnings from discontinued operations, net of taxes(a)	$ 40	$ 1,867	$ 959

(a) The sum of GE industrial earnings from discontinued operations, net of taxes, and GECS earnings (loss) from discontinued operations, net of taxes, below are reported as GE industrial earnings (loss) from discontinued operations, net of taxes, on the Statement of Earnings.

December 31 (In millions)	2008	2007
Assets		
Property, plant and equipment – net	$ –	$ 9

Current receivables	64	57
Assets of discontinued operations	$ 64	$ 66
Liabilities		
Other GE current liabilities	$ 36	$ 146
Other	153	156
Liabilities of discontinued operations	$ 189	$ 302

(84)

Summarized financial information for discontinued GECS operations is shown below.

(In millions)	2008	2007	2006
Operations			
Total revenues	$ 692	$ (117)	$ 7,167
Earnings (loss) from discontinued operations before income taxes	$ (571)	$ (2,225)	$ 641
Income tax benefit (expense)	212	981	(21)
Earnings (loss) from discontinued operations before disposal, net of taxes	$ (359)	$ (1,244)	$ 620
Disposal			
Loss on disposal before income taxes	$ (1,479)	$ (1,510)	$ (75)
Income tax benefit (expense)	1,119	638	(106)
Loss on disposal, net of taxes	$ (360)	$ (872)	$ (181)
Earnings (loss) from discontinued operations, net of taxes	$ (719)	$ (2,116)	$ 439

December 31 (In millions)	2008	2007
Assets		
Cash and equivalents	$ 180	$ 300
Financing receivables – net	–	6,675
All other assets	19	129
Other	1,460	1,719
Assets of discontinued operations	$ 1,659	$ 8,823
Liabilities		
Liabilities of discontinued operations	$ 1,243	$ 1,692

Assets at December 31, 2008, were primarily comprised of a deferred tax asset for a loss carryforward, which expires in 2015, related to the sale of our GE Money Japan business.

NOTE 3. OTHER INCOME

(In millions)	2008	2007	2006
GE			
Sales of business interests(a)	$ 891	$ 1,541	$ 878
Interest income from GECS	371	329	145
Associated companies	332	671	437
Licensing and royalty income	291	255	220
Marketable securities and bank deposits	196	282	272
Other items	(116)	293	355
	1,965	3,371	2,307

Eliminations	(379)	(352)	(153)
Total	$ 1,586	$ 3,019	$ 2,154

(a) Included gain on sale of a business interest to Hitachi of $900 million in 2007.

NOTE 4. GECS REVENUES FROM SERVICES

(In millions)	2008	2007	2006
Interest on loans	$ 27,109	$ 23,599	$ 20,358
Equipment leased to others	15,568	15,260	12,940
Fees	6,126	6,533	5,358
Financing leases	4,374	4,699	4,298
Real estate investments	3,505	4,669	3,138
Premiums earned by insurance activities	2,255	2,232	2,084
Associated companies	2,217	2,172	2,079
Investment income(a)	2,191	4,724	3,115
Net securitization gains	1,133	1,804	1,187
Other items	5,036	5,526	4,410
Total	$ 69,514	$ 71,218	$ 58,967

(a) Included gain on sale of Swiss Re common stock of $566 million in 2007 and other-than-temporary impairments on investment securities of $1,420 million, $127 million and $139 million in 2008, 2007 and 2006, respectively.

NOTE 5. SUPPLEMENTAL COST INFORMATION

We funded research and development expenditures of $3,020 million in 2008, $3,009 million in 2007 and $2,790 million in 2006. In addition, research and development funding from customers, principally the U.S. government, totaled $1,287 million, $1,066 million and $690 million in 2008, 2007 and 2006, respectively.

Rental expense under operating leases is shown below.

(In millions)	2008	2007	2006
GE	$ 912	$ 929	$ 854
GECS	992	955	863

At December 31, 2008, minimum rental commitments under noncancellable operating leases aggregated $3,022 million and $3,565 million for GE and GECS, respectively. Amounts payable over the next five years follow.

(In millions)	2009	2010	2011	2012	2013
GE	$ 550	$ 548	$ 496	$ 429	$ 390
GECS	774	621	508	435	303

Payments under revenue sharing partnerships amounted to $2,290 million, $1,878 million and $1,413 million in 2008, 2007 and 2006, respectively, and are included in cost of goods sold. GE’s selling, general and administrative expenses totaled $14,401 million in 2008, $14,148 million in 2007 and $12,893 million in 2006.

NOTE 6. POSTRETIREMENT BENEFIT PLANS

Retiree Health and Life Benefits

We sponsor a number of retiree health and life insurance benefit plans (retiree benefit plans). Principal retiree benefit plans are discussed below; other such plans are not significant individually or in the aggregate. We use a December 31 measurement date for our plans.

Principal Retiree Benefit Plans provide health and life insurance benefits to certain employees who retire under the GE Pension Plan with 10 or more years of service. Eligible retirees share in the cost of healthcare benefits. These plans cover approximately 225,000 retirees and dependents.

Cost Of Principal Retiree Benefit Plans

(In millions)	2008	2007	2006
Expected return on plan assets	$ (131)	$ (125)	$ (127)
Service cost for benefits earned	326	286	229
Interest cost on benefit obligation	750	577	455
Prior service cost amortization	673	603	363
Net actuarial loss (gain) amortization	(49)	(17)	64
Retiree benefit plans cost	$ 1,569	$ 1,324	$ 984

Actuarial assumptions are described below. The discount rates at December 31 measured the year-end benefit obligations and the earnings effects for the subsequent year.

December 31	2008	2007	2006	2005
Discount rate	6.15%	6.31%(a)	5.75%	5.25%
Compensation increases	4.20	5.00	5.00	5.00
Expected return on assets	8.50	8.50	8.50	8.50
Initial healthcare trend rate(c)	7.00(b)	9.10	9.20	10.00

(a) Weighted average discount rate of 6.34% was used for determination of costs in 2008.
(b) Includes benefits from new healthcare supplier contracts.
(c) For 2008, ultimately declining to 6% for 2025 and thereafter.

To determine the expected long-term rate of return on retiree life plan assets, we consider current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. We apply our expected rate of return to a market-related value of assets, which stabilizes variability in the amounts to which we apply that expected return.

We amortize experience gains and losses as well as the effects of changes in actuarial assumptions and plan provisions over a period no longer than the average future service of employees.

Funding Policy. We fund retiree health benefits on a pay-as-you-go basis. We expect to contribute approximately $665 million in 2009 to fund such benefits. We fund retiree life insurance benefits at our discretion.

Changes in the accumulated postretirement benefit obligation for retiree benefit plans follow.

Accumulated Postretirement Benefit Obligation (APBO)

(In millions)	2008	2007
Balance at January 1	$ 12,983	$ 8,262
Service cost for benefits earned	326	286
Interest cost on benefit obligation	750	577
Participant contributions	51	47

Plan amendments(a)	–	4,257
Actuarial loss (gain)(b)	(1,351)	320
Benefits paid(c)	(811)	(796)
Other	1	30
Balance at December 31(d)	$ 11,949	$ 12,983

(a) For 2007, related to labor agreements negotiated with U.S. unions.
(b) For 2008, primarily related to benefits from new healthcare supplier contracts.
(c) Net of Medicare Part D subsidy of $83 million and $73 million in 2008 and 2007, respectively.
(d) The APBO for the retiree health plans was $9,749 million and $10,847 million at year-end 2008 and 2007, respectively.

A one percentage point change in the assumed healthcare cost trend rate would have the following effects.

(In millions)	1% increase	1% decrease
APBO at December 31, 2008	$ 990	$ (848)
Service and interest cost in 2008	95	(80)

Fair Value of Plan Assets

(In millions)	2008	2007
Balance at January 1	$ 1,804	$ 1,710
Actual gain (loss) on plan assets	(486)	221
Employer contributions	617	622
Participant contributions	51	47
Benefits paid(a)	(811)	(796)
Balance at December 31	$ 1,175	$ 1,804

(a) Net of Medicare Part D subsidy.

Plan Asset Allocation

	2008		2007
December 31	Target allocation	Actual allocation	Actual allocation
U.S. equity securities	19-39%	25%	33%
Non-U.S. equity securities	18-38	15	20
Debt securities (including cash equivalents)	11-41	39	31
Real estate	2-12	7	6
Private equities	3-13	8	5
Other	0-10	6	5

Plan fiduciaries set investment policies and strategies for the trust and oversee its investment allocation, which includes selecting investment managers and setting long-term strategic targets. Long-term strategic investment objectives include preserving the funded status of the plan and balancing risk and return. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range.

Trust assets invested in short-term securities must generally be invested in securities rated A1/P1 or better, except for 15% of such securities that may be rated A2/P2. According to statute, the aggregate holdings of all qualifying employer securities (e.g., GE common stock) and qualifying employer real property may not exceed 10% of the fair value of trust assets at the time of purchase. GE securities represented 3.6% and 5.9% of trust assets at year-end 2008 and 2007, respectively.

(88)

Retiree Benefit Asset (Liability)

December 31 (In millions)	2008	2007
Funded status(a)	$ (10,774)	$ (11,179)
Liability recorded in the Statement of Financial Position		
Retiree health plans		
Due within one year	$ (644)	$ (675)
Due after one year	(9,105)	(10,172)
Retiree life plans	(1,025)	(332)
Net liability recognized	$ (10,774)	$ (11,179)
Amounts recorded in shareowners' equity (unamortized)		
Prior service cost	$ 5,027	$ 5,700
Net actuarial loss (gain)	(475)	210
Total	$ 4,552	$ 5,910

(a) Fair value of assets less APBO, as shown in the preceding tables.

In 2009, we estimate that we will amortize $675 million of prior service cost and $105 million of net actuarial gain from shareowners' equity into retiree benefit plans cost. Comparable amortized amounts in 2008 were $673 million of prior service cost and $49 million of net actuarial gains.

Estimated Future Benefit Payments

(In millions)	2009	2010	2011	2012	2013	2014-2018
Gross	$ 910	$ 930	$ 965	$ 980	$ 1,000	$ 5,200
Expected Medicare Part D subsidy	75	80	85	90	95	550
Net	$ 835	$ 850	$ 880	$ 890	$ 905	$ 4,650

Pension Benefits

We sponsor a number of pension plans. Principal pension plans, together with affiliate and certain other pension plans (other pension plans) detailed in this note, represent about 99% of our total pension assets. We use a December 31 measurement date for our plans.

Principal Pension Plans are the GE Pension Plan and the GE Supplementary Pension Plan.

The GE Pension Plan provides benefits to certain U.S. employees based on the greater of a formula recognizing career earnings or a formula recognizing length of service and final average earnings. Certain benefit provisions are subject to collective bargaining.

The GE Supplementary Pension Plan is an unfunded plan providing supplementary retirement benefits primarily to higher-level, longer-service U.S. employees.

Other Pension Plans in 2008 included 31 U.S. and non-U.S. pension plans with pension assets or obligations greater than $50 million. These defined benefit plans provide benefits to employees based on formulas recognizing length of service and earnings.

Pension Plan Participants

December 31, 2008	Total	Principal pension plans	Other pension plans
Active employees	188,000	140,000	48,000
Vested former employees	231,000	190,000	41,000
Retirees and beneficiaries	246,000	220,000	26,000
Total	665,000	550,000	115,000

Cost Of Pension Plans

	Total			Principal pension plans			Other pension plans		
(In millions)	2008	2007	2006	2008	2007	2006	2008	2007	2006
Expected return on plan assets	$ (4,850)	$ (4,459)	$ (4,211)	$ (4,298)	$ (3,950)	$ (3,811)	$ (552)	$ (509)	$ (400)
Service cost for benefits earned	1,663	1,727	1,719	1,331	1,355	1,402	332	372	317
Interest cost on benefit obligation	3,152	2,885	2,685	2,653	2,416	2,304	499	469	381
Prior service cost amortization	332	247	258	321	241	253	11	6	5
Net actuarial loss amortization	316	856	893	237	693	729	79	163	164
Pension plans cost	$ 613	$ 1,256	$ 1,344	$ 244	$ 755	$ 877	$ 369	$ 501	$ 467

Actuarial assumptions are described below. The discount rates at December 31 measured the year-end benefit obligations and the earnings effects for the subsequent year.

	Principal pension plans				Other pension plans (weighted average)			
December 31	2008	2007	2006	2005	2008	2007	2006	2005
Discount rate	6.11%	6.34%	5.75%	5.50%	6.03%	5.65%	4.97%	4.74%
Compensation increases	4.20	5.00	5.00	5.00	4.47	4.50	4.26	4.20
Expected return on assets	8.50	8.50	8.50	8.50	7.41	7.51	7.44	7.47

To determine the expected long-term rate of return on pension plan assets, we consider current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. For the principal pension

plans, we apply our expected rate of return to a market-related value of assets, which stabilizes variability in the amounts to which we apply that expected return.

We amortize experience gains and losses as well as the effects of changes in actuarial assumptions and plan provisions over a period no longer than the average future service of employees.

Funding policy for the GE Pension Plan is to contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts as we may determine to be appropriate. We have not made contributions to the GE Pension Plan since 1987 and will not make any such contributions in 2009. In 2009, we expect to pay approximately $170 million for benefit payments under our GE Supplementary Pension Plan and administrative expenses of our principal pension plans and expect to contribute approximately $690 million to other pension plans. In 2008, comparative amounts were $153 million and $627 million, respectively.

Benefit obligations are described in the following tables. Accumulated and projected benefit obligations (ABO and PBO) represent the obligations of a pension plan for past service as of the measurement date. ABO is the present value of benefits earned to date with benefits computed based on current compensation levels. PBO is ABO increased to reflect expected future compensation.

Projected Benefit Obligation

(In millions)	Principal pension plans 2008	Principal pension plans 2007	Other pension plans 2008	Other pension plans 2007
Balance at January 1	$ 42,947	$ 43,293	$ 9,014	$ 9,034
Service cost for benefits earned	1,331	1,355	332	372
Interest cost on benefit obligations	2,653	2,416	499	469
Participant contributions	169	173	40	43
Plan amendments	–	1,470	16	26
Actuarial loss (gain)(a)	791	(3,205)	(923)	(665)
Benefits paid	(2,723)	(2,555)	(383)	(370)
Acquisitions (dispositions) – net	–	–	545	(311)
Exchange rate adjustments	–	–	(1,392)	416
Balance at December 31(b)	$ 45,168	$ 42,947	$ 7,748	$ 9,014

(a) Principally associated with discount rate changes.
(b) The PBO for the GE Supplementary Pension Plan, which is an unfunded plan, was $3,505 million and $3,437 million at year-end 2008 and 2007, respectively.

Accumulated Benefit Obligation

December 31 (In millions)	2008	2007
GE Pension Plan	$ 40,313	$ 38,155
GE Supplementary Pension Plan	2,582	2,292
Other pension plans	7,075	8,175

Plans With Assets Less Than ABO

December 31 (In millions)	2008	2007
Funded plans with assets less than ABO		
Plan assets	$ 4,914	$ 3,639
Accumulated benefit obligations	5,888	3,974
Projected benefit obligations	6,468	4,595
Unfunded plans(a)		
Accumulated benefit obligations	3,352	3,111
Projected benefit obligations	4,303	4,283

(a) Primarily related to the GE Supplementary Pension Plan.

Fair Value of Plan Assets

(In millions)	Principal pension plans 2008	2007	Other pension plans 2008	2007
Balance at January 1	$ 59,700	$ 54,758	$ 7,411	$ 6,435
Actual gain (loss) on plan assets	(16,569)	7,188	(1,743)	614
Employer contributions	153	136	627	730
Participant contributions	169	173	40	43
Benefits paid	(2,723)	(2,555)	(383)	(370)
Acquisitions (dispositions) – net	–	–	565	(372)
Exchange rate adjustments	–	–	(1,143)	331
Balance at December 31	$ 40,730	$ 59,700	$ 5,374	$ 7,411

Plan Asset Allocation

	Principal pension plans		
	2008		2007
December 31	Target allocation	Actual allocation	Actual allocation
U.S. equity securities	17-37%	25%	32%
Non-U.S. equity securities	17-37	14	20
Debt securities (including cash equivalents)	10-40	31	24
Real estate	4-14	12	9
Private equities	5-15	12	9
Other	1-14	6	6

Plan fiduciaries of the GE Pension Plan set investment policies and strategies for the GE Pension Trust and oversee its investment allocation, which includes selecting investment managers, commissioning periodic asset-liability studies and setting long-term strategic targets. Long-term strategic investment objectives include preserving the funded status of the plan and balancing risk and return. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range.

GE Pension Trust assets are invested subject to the following additional guidelines:

- Short-term securities must generally be rated A1/P1 or better, except for 15% of such securities that may be rated A2/P2.

- Real estate investments may not exceed 25% of total assets.

- Investments in restricted securities that are not freely tradable may not exceed 30% of total assets (actual was 16% of trust assets at December 31, 2008).

According to statute, the aggregate holdings of all qualifying employer securities (e.g., GE common stock) and qualifying employer real property may not exceed 10% of the fair value of trust assets at the time of purchase. GE securities represented 3.5% and 5.6% of trust assets at year-end 2008 and 2007, respectively.

	Other pension plans (weighted average)		
	2008		2007
December 31	Target allocation	Actual allocation	Actual allocation
Equity securities	60%	57%	67%
Debt securities	30	32	25
Real estate	4	4	4
Other	6	7	4

(92)

Pension Asset (Liability)

December 31 (In millions)	Principal pension plans 2008	Principal pension plans 2007	Other pension plans 2008	Other pension plans 2007
Funded status(a)	$ (4,438)	$ 16,753	$ (2,374)	$ (1,603)
Pension asset (liability) recorded in the Statement of Financial Position				
Pension asset	$ –	$ 20,190	$ 9	$ 258
Pension liabilities				
Due within one year(b)	(117)	(111)	(51)	(54)
Due after one year(b)	(4,321)	(3,326)	(2,332)	(1,807)
Net amount recognized	$ (4,438)	$ 16,753	$ (2,374)	$ (1,603)
Amounts recorded in shareowners' equity (unamortized)				
Prior service cost	$ 1,739	$ 2,060	$ 62	$ 65
Net actuarial loss (gain)	16,447	(4,974)	1,753	654
Total	$ 18,186	$ (2,914)	$ 1,815	$ 719

(a) Fair value of assets less PBO, as shown in the preceding tables.
(b) For principal pension plans, primarily represents the GE Supplementary Pension Plan liability.

In 2009, we estimate that we will amortize $323 million of prior service cost and $377 million of net actuarial loss for the principal pension plans from shareowners' equity into pension cost. For other pension plans, the estimated prior service cost and net actuarial loss to be amortized over the next fiscal year are $10 million and $125 million, respectively. Comparable amortized amounts in 2008, respectively, were $321 million and $237 million for principal pension plans and $11 million and $79 million for other pension plans.

Estimated Future Benefit Payments

(In millions)	2009	2010	2011	2012	2013	2014-2018
Principal pension plans	$ 2,725	$ 2,800	$ 2,850	$ 2,925	$ 2,950	$ 16,050
Other pension plans	345	350	360	370	375	2,105

Postretirement Benefit Plans

2008 Cost of Postretirement Benefit Plans and Changes in Equity Other Than Transactions With Shareowners

(In millions)	Total post-retirement benefit plans	Retiree benefit plans	Principal pension plans	Other pension plans
Cost of postretirement benefit plans	$ 2,182	$ 1,569	$ 244	$ 369
Changes in equity other than transactions with shareowners				
Net actuarial loss (gain) – current year	$ 22,094	$ (734)	$ 21,658	$ 1,170
Prior service cost – current year	16	–	–	16
Prior service cost amortization	(1,005)	(673)	(321)	(11)
Net actuarial gain (loss) amortization	(267)	49	(237)	(79)
Total changes in equity other than transactions with shareowners	20,838	(1,358)	21,100	1,096
Cost of postretirement benefit plans and changes in equity other than transactions with shareowners	$ 23,020	$ 211	$ 21,344	$ 1,465

NOTE 7. PROVISION FOR INCOME TAXES

(In millions)	2008	2007	2006
GE			
Current tax expense	$ 3,844	$ 2,230	$ 1,849
Deferred tax expense (benefit) from temporary differences	(417)	564	703
	3,427	2,794	2,552
GECS			
Current tax expense (benefit)	(1,508)	1,268	456
Deferred tax expense (benefit) from temporary differences	(867)	93	936
	(2,375)	1,361	1,392
Consolidated			
Current tax expense	2,336	3,498	2,305
Deferred tax expense (benefit) from temporary differences	(1,284)	657	1,639
Total	$ 1,052	$ 4,155	$ 3,944

GE and GECS file a consolidated U.S. federal income tax return. The GECS provision for current tax expense includes its effect on the consolidated return. The effect of GECS on the consolidated liability is settled in cash as GE

tax payments are due.

Consolidated U.S. earnings from continuing operations before income taxes were $2,259 million in 2008, $8,449 million in 2007 and $10,154 million in 2006. The corresponding amounts for non-U.S.-based operations were $16,882 million in 2008, $18,163 million in 2007 and $13,134 million in 2006.

Consolidated current tax expense includes amounts applicable to U.S. federal income taxes of a benefit of $723 million in 2008, and expenses of $64 million and $530 million in 2007 and 2006, respectively, and amounts applicable to non-U.S. jurisdictions of $3,060 million, $3,042 million and $1,549 million in 2008, 2007 and 2006, respectively. Consolidated deferred taxes related to U.S. federal income taxes were a benefit of $827 million in 2008 and expenses of $776 million and $1,529 million in 2007 and 2006, respectively.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases, as well as from net operating loss and tax credit carryforwards, and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established. See Note 21.

Our businesses are subject to regulation under a wide variety of U.S. federal, state and foreign tax laws, regulations and policies. Changes to these laws or regulations may affect our tax liability, return on investments and business operations. For example, GE's effective tax rate is reduced because active business income earned and indefinitely reinvested outside the United States is taxed at less than the U.S. rate. A significant portion of this reduction depends upon a provision of U.S. tax law that defers the imposition of U.S. tax on certain active financial services income until that income is repatriated to the United States as a dividend. This provision is consistent with international tax norms and permits U.S. financial services companies to compete more effectively with foreign banks and other foreign financial institutions in global markets. This provision, currently scheduled to expire at the end of 2009, has been scheduled to expire on five previous occasions, including October of 2008, but there can be no assurance that it will continue to be extended. In the event this provision is not extended after 2009, the current U.S. tax imposed on active financial services income earned outside the United States would increase, making it more difficult for U.S. financial services companies to compete in global markets. If this provision is not extended, we expect our effective tax rate to increase significantly after 2010.

We have not provided U.S. deferred taxes on cumulative earnings of non-U.S. affiliates and associated companies that have been reinvested indefinitely. These earnings relate to ongoing operations and, at December 31, 2008, were approximately $75 billion. Most of these earnings have been reinvested in active non-U.S. business operations and we do not intend to use these earnings as a source of funding for U.S. operations. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. Deferred taxes are provided for earnings of non-U.S. affiliates and associated companies when we plan to remit those earnings. During 2008, because the use of foreign tax credits no longer required the repatriation of prior-year earnings, we increased the amount of prior-year earnings that were indefinitely reinvested outside the U.S. by approximately $1.0 billion, resulting in a decrease to the income tax provision of approximately $350 million.

As discussed in Note 1, on January 1, 2007, we adopted a new accounting standard, FIN 48, Accounting for Uncertainty in Income Taxes, resulting in a $49 million decrease in retained earnings, an $89 million decrease in goodwill and a $40 million decrease in income tax liability.

Annually, we file over 7,500 income tax returns in over 250 global taxing jurisdictions. We are under examination or engaged in tax litigation in many of these jurisdictions. During 2007, the IRS completed the audit of our consolidated U.S. income tax returns for 2000-2002. The IRS is currently auditing our consolidated U.S. income tax returns for 2003-2007. In addition, certain other U.S. tax deficiency issues and refund claims for previous years remain unresolved. It is reasonably possible that the 2003-2005 U.S. audit cycle will be completed during the next 12 months, which could result in a decrease in our balance of "unrecognized tax benefits" – that is, the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties.

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The balance of unrecognized tax benefits, the amount of related interest and penalties we have provided and what we believe to be the range of reasonably possible changes in the next 12 months, were:

December 31 (In millions)	2008	2007
Unrecognized tax benefits	$ 6,692	$ 6,331
Portion that, if recognized, would reduce tax expense and effective tax rate(a)	4,453	4,268
Accrued interest on unrecognized tax benefits	1,204	923
Accrued penalties on unrecognized tax benefits	96	77
Reasonably possible reduction to the balance of unrecognized tax benefits in succeeding 12 months	0-1,500	0-1,500
Portion that, if recognized, would reduce tax expense and effective tax rate(a)	0-1,100	0-1,250

(a) Some portion of such reduction might be reported as discontinued operations.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

(In millions)	2008	2007
Balance at January 1	$ 6,331	$ 6,806
Additions for tax positions of the current year	553	434
Additions for tax positions of prior years	516	1,439
Reductions for tax positions of prior years	(489)	(1,939)
Settlements with tax authorities	(173)	(330)
Expiration of the statute of limitations	(46)	(79)
Balance at December 31	$ 6,692	$ 6,331

We classify interest on tax deficiencies as interest expense; we classify income tax penalties as provision for income taxes. For the year ended December 31, 2008, $268 million of interest expense and $19 million of tax expense related to penalties were recognized in the statement of earnings, compared with $(279) million and $(34) million for the year ended December 31, 2007.

A reconciliation of the U.S. federal statutory income tax rate to the actual income tax rate is provided below.

Reconciliation of U.S. Federal Statutory Income Tax Rate to Actual Income Tax Rate

	Consolidated			GE			GECS		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from									

Inclusion of after-tax earnings of GECS in before-tax earnings of GE	–	–	–	(12.6)	(17.2)	(16.3)	–	–	–
Tax on global activities including exports(a)	(26.9)	(15.6)	(16.7)	(5.3)	(5.0)	(6.5)	(74.4)	(21.0)	(21.1)
U.S. business credits	(1.5)	(1.1)	(1.4)	(0.4)	(0.3)	(0.4)	(3.8)	(1.5)	(2.2)
SES transaction	–	(2.1)	–	–	–	–	–	(4.0)	–
All other – net	(1.1)	(0.6)	–	(0.8)	(1.4)	(0.1)	(0.8)	1.4	0.3
	(29.5)	(19.4)	(18.1)	(19.1)	(23.9)	(23.3)	(79.0)	(25.1)	(23.0)
Actual income tax rate	5.5%	15.6%	16.9%	15.9%	11.1%	11.7%	(44.0)%	9.9%	12.0%

(a) 2008 included (1.8)% and (6.5)% from indefinite reinvestment of prior-year earnings for consolidated and GECS, respectively.

NOTE 8. EARNINGS PER SHARE INFORMATION

(In millions; per-share amounts in dollars)	2008 Diluted	2008 Basic	2007 Diluted	2007 Basic	2006 Diluted	2006 Basic
Consolidated						
Earnings from continuing operations for per-share calculation(a)	$ 18,091	$ 18,089	$ 22,457	$ 22,457	$ 19,345	$ 19,344
Preferred stock dividends declared	(75)	(75)	–	–	–	–
Earnings from continuing operations attributable to common shareowners for per-share calculation	$ 18,016	$ 18,014	$ 22,457	$ 22,457	$ 19,345	$ 19,344
Earnings (loss) from discontinued operations for per-share calculation	(679)	(679)	(249)	(249)	1,399	1,398
Net earnings attributable to common shareowners for per-share calculation	17,336	17,335	22,208	22,208	20,744	20,742
Average equivalent shares						
Shares of GE common stock outstanding	10,080	10,080	10,182	10,182	10,359	10,359
Employee compensation-related shares, including stock options	18	–	36	–	35	–
Total average equivalent shares	10,098	10,080	10,218	10,182	10,394	10,359
Per-share amounts						
Earnings from continuing operations	$ 1.78	$ 1.79	$ 2.20	$ 2.21	$ 1.86	$ 1.87
Earnings (loss) from discontinued operations	(0.07)	(0.07)	(0.02)	(0.02)	0.13	0.14
Net earnings per share	1.72	1.72	2.17	2.18	2.00	2.00

(a) Included an insignificant amount of dividend equivalents in each of the three years ended December 31, 2008.

Earnings-per-share amounts are computed independently for earnings from continuing operations, earnings (loss) from discontinued operations and net earnings. As a result, the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amounts for net earnings.

NOTE 9. INVESTMENT SECURITIES

Investment securities comprise mainly investment-grade debt securities supporting obligations to annuitants and policyholders in our run-off insurance operations and holders of guaranteed investment contracts.

	2008				2007			
December 31 (In millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
GE								
Debt – U.S. corporate	$ 182	$ –	$ –	$ 182	$ 301	$ 23	$ –	$ 324
Equity – available-for-sale	32	–	(1)	31	21	3	(5)	19
	214	–	(1)	213	322	26	(5)	343
GECS								
Debt								
U.S. corporate	22,183	512	(2,477)	20,218	21,896	725	(669)	21,952
State and municipal	1,556	19	(94)	1,481	1,106	28	(8)	1,126
Residential mortgage-backed(a)	5,326	70	(1,052)	4,344	5,677	22	(225)	5,474
Commercial mortgage-backed	2,910	14	(788)	2,136	2,930	15	(49)	2,896
Asset-backed	2,881	1	(691)	2,191	2,307	3	(89)	2,221
Corporate – non-U.S.	1,441	14	(166)	1,289	1,489	47	(11)	1,525
Government – non-U.S.	1,300	61	(19)	1,342	1,082	70	(10)	1,142
U.S. government and federal agency	739	65	(100)	704	832	55	(37)	850
Retained interests(b)(c)	6,395	113	(152)	6,356	5,579	178	(57)	5,700
Equity								
Available-for-sale	921	26	(160)	787	1,524	265	(120)	1,669
Trading	388	–	–	388	386	–	–	386
	46,040	895	(5,699)	41,236	44,808	1,408	(1,275)	44,941
Eliminations	(7)	–	4	(3)	(7)	(1)	–	(8)
Total	$ 46,247	$ 895	$ (5,696)	$ 41,446	$ 45,123	$ 1,433	$ (1,280)	$ 45,276

(a) Substantially collateralized by U.S. mortgages.
(b) Included $1,752 million and $2,227 million of retained interests at December 31, 2008 and 2007, respectively, accounted for in accordance with SFAS 155, Accounting for Certain Hybrid Financial Instruments. See Note 30.
(c) Amortized cost and estimated fair value included $20 million and $25 million of trading securities at December 31, 2008 and 2007, respectively.

(98)

The following tables present the gross unrealized losses and estimated fair values of our available-for-sale investment securities.

	In loss position for			
	Less than 12 months		12 months or more	
December 31 (In millions)	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
2008				
Debt				
U.S. corporate	$ 6,602	$ (1,108)	$ 5,629	$ (1,369)
State and municipal	570	(44)	278	(50)
Residential mortgage-backed	1,355	(107)	1,614	(945)
Commercial mortgage-backed	774	(184)	1,218	(604)
Asset-backed	1,064	(419)	1,063	(272)
Corporate – non-U.S.	454	(106)	335	(60)
Government – non-U.S.	88	(4)	275	(15)
U.S. government and federal agency	–	–	150	(100)
Retained interests	1,403	(71)	274	(81)
Equity	268	(153)	9	(4)
Total	$ 12,578	$ (2,196)	$ 10,845	$ (3,500)
2007				
Debt				
U.S. corporate	$ 5,766	$ (274)	$ 4,341	$ (395)
State and municipal	198	(3)	131	(5)
Residential mortgage-backed	3,268	(160)	1,223	(65)
Commercial mortgage-backed	1,483	(33)	848	(16)
Asset-backed	1,417	(62)	478	(27)
Corporate – non-U.S.	505	(8)	124	(3)
Government – non-U.S.	29	(1)	311	(9)
U.S. government and federal agency	255	(37)	–	–
Retained interests	548	(50)	10	(7)
Equity	443	(105)	18	(20)
Total	$ 13,912	$ (733)	$ 7,484	$ (547)

Investment securities amounted to $41,446 million at December 31, 2008, compared with $45,276 million at December 31, 2007. Most of our investment securities relate to our run-off insurance operations and our issuances of guaranteed investment contracts.

Of our residential mortgage-backed securities (RMBS) at December 31, 2008, we had approximately $1,310 million of exposure to residential subprime credit, primarily supporting our guaranteed investment contracts, a majority of which have received investment-grade credit ratings from the major rating agencies. Of the total residential subprime credit exposure, $1,093 million was insured by monoline insurers. Our subprime investment securities were collateralized primarily by pools of individual, direct mortgage loans, not other structured products such as collateralized debt obligations. Additionally, a majority of exposure to residential subprime credit was investment securities with underlying loans originated in 2006 and 2005. At December 31, 2008, we had approximately $2,853

million of exposure to commercial, regional and foreign banks, primarily relating to corporate debt securities, with associated unrealized losses of $373 million.

We presently intend to hold our investment securities that are in an unrealized loss position at December 31, 2008, at least until we can recover their respective amortized cost. We have the ability to hold our debt securities until their maturities. In reaching the conclusion that these investments are not other-than-temporarily impaired, consideration was given to research by our internal and third-party asset managers. With respect to corporate bonds, we placed greater emphasis on the credit quality of the issuers. With respect to RMBS and commercial mortgage-backed securities (CMBS), we placed greater emphasis on our expectations with respect to cash flows from the underlying collateral, and with respect to RMBS, we considered the availability of credit enhancements, principally monoline insurance.

(99)

Contractual Maturities of GECS Investment in Available-For-Sale Debt Securities (Excluding Mortgage-Backed and Asset-Backed Securities)

(In millions)	Amortized cost	Estimated fair value
Due in		
2009	$ 1,820	$ 1,777
2010–2013	4,999	4,634
2014–2018	3,841	3,366
2019 and later	16,559	15,257

We expect actual maturities to differ from contractual maturities because borrowers have the right to call or prepay certain obligations.

Supplemental information about gross realized gains and losses on available-for-sale investment securities follows.

(In millions)	2008	2007	2006
GE			
Gains	$ –	$ 5	$ 125
Losses, including impairments	(148)	–	(1)
Net	(148)	5	124
GECS			
Gains(a)	212	1,026	313
Losses, including impairments	(1,472)	(141)	(181)
Net	(1,260)	885	132
Total	$ (1,408)	$ 890	$ 256

(a) Included gain on sale of Swiss Re common stock of $566 million in 2007.

In the ordinary course of managing our investment securities portfolio, we may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield and liquidity requirements and the funding of claims and obligations to policyholders.

Proceeds from investment securities sales amounted to $5,239 million, $18,993 million and $12,394 million in 2008, 2007 and 2006, respectively, principally from the short-term nature of the investments that support the guaranteed investment contracts portfolio and the 2007 sale of Swiss Re common stock.

We recognized pre-tax gains on trading securities of $108 million, $292 million and $5 million in 2008, 2007 and 2006, respectively. Investments in retained interests decreased by $113 million and $102 million during 2008 and 2007, respectively, reflecting declines in fair value accounted for in accordance with SFAS 155.

NOTE 10. CURRENT RECEIVABLES

	Consolidated(a)		GE	
December 31 (In millions)	2008	2007	2008	2007
Energy Infrastructure	$ 7,403	$ 7,065	$ 6,409	$ 5,934
Technology Infrastructure	9,214	9,149	5,687	5,443
NBC Universal	3,659	3,800	2,701	2,927
Consumer & Industrial	1,498	2,238	513	630
Corporate items and eliminations	296	526	381	642
	22,070	22,778	15,691	15,576
Less allowance for losses	(659)	(519)	(627)	(483)
Total	$ 21,411	$ 22,259	$ 15,064	$ 15,093

(a) Included GE industrial customer receivables factored through a GECS affiliate and reported as financing receivables by GECS. See Note 26.

GE receivables balances at December 31, 2008 and 2007, before allowance for losses, included $11,274 million and $11,008 million, respectively, from sales of goods and services to customers, and $293 million and $381 million at December 31, 2008 and 2007, respectively, from transactions with associated companies.

GE current receivables of $231 million and $252 million at December 31, 2008 and 2007, respectively, arose from sales, principally of Aviation goods and services on open account to various agencies of the U.S. government, our largest single customer. About 5% of GE sales of goods and services were to the U.S. government in 2008, compared with 4% in both 2007 and 2006.

NOTE 11. INVENTORIES

December 31 (In millions)	2008	2007
GE		
Raw materials and work in process	$ 8,710	$ 7,893
Finished goods	5,032	5,025
Unbilled shipments	561	539
	14,303	13,457
Less revaluation to LIFO	(706)	(623)
	13,597	12,834
GECS		
Finished goods	77	63
Total	$ 13,674	$ 12,897

NOTE 12. GECS FINANCING RECEIVABLES (INVESTMENTS IN LOANS AND FINANCING LEASES)

December 31 (In millions)	2008	2007
Loans, net of deferred income	$ 310,203	$ 313,290

Investment in financing leases, net of deferred income	67,578	75,015
	377,781	388,305
Less allowance for losses (Note 13)	(5,325)	(4,238)
Financing receivables – net	$ 372,456	$ 384,067

Included in the above are $6,461 million and $9,708 million of the financing receivables of consolidated, liquidating securitization entities at December 31, 2008 and 2007, respectively. In addition, financing receivables at December 31, 2008, included $2,736 million relating to loans that had been acquired and accounted for in accordance with SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer.

Details of GECS financing receivables – net follow.

December 31 (In millions)	2008	2007
Commercial Lending and Leasing (CLL)		
Equipment and leasing and other	$ 99,769	$ 96,817
Commercial and industrial	64,332	58,863
	164,101	155,680
GE Money		
Non-U.S. residential mortgages(a)	59,595	73,042
Non-U.S. installment and revolving credit	24,441	34,669
U.S. installment and revolving credit	27,645	27,914
Non-U.S. auto	18,168	27,368
Other	9,244	10,198
	139,093	173,191
Real Estate	46,735	32,228
Energy Financial Services	8,392	7,898
GE Commercial Aviation Services (GECAS)(b)	15,429	14,197
Other(c)	4,031	5,111
	377,781	388,305
Less allowance for losses	(5,325)	(4,238)
Total	$ 372,456	$ 384,067

(a) At December 31, 2008, net of credit insurance, approximately 26% of this portfolio comprised loans with introductory, below market rates that are scheduled to adjust at future dates; with high loan-to-value ratios at inception; whose terms permitted interest-only payments; or whose terms resulted in negative amortization. At the origination date, loans with an adjustable rate were underwritten to the reset value.
(b) Included loans and financing leases of $13,078 million and $11,685 million at December 31, 2008 and 2007, respectively, related to commercial aircraft at Aviation Financial Services.
(c) Included loans and financing leases of $4,031 million and $5,106 million at December 31, 2008 and 2007, respectively, related to certain consolidated, liquidating securitization entities.

GECS financing receivables include both loans and financing leases. Loans represent transactions in a variety of forms, including revolving charge and credit, mortgages, installment loans, intermediate-term loans and revolving loans secured by business assets. The portfolio includes loans carried at the principal amount on which finance charges are billed periodically, and loans carried at gross book value, which includes finance charges.

Investment in financing leases consists of direct financing and leveraged leases of aircraft, railroad rolling stock, autos, other transportation equipment, data processing equipment, medical equipment, commercial real estate and

other manufacturing, power generation, and commercial equipment and facilities.

For federal income tax purposes, the leveraged leases and the majority of the direct financing leases are leases in which GECS depreciates the leased assets and is taxed upon the accrual of rental income. Certain direct financing leases are loans for federal income tax purposes. For these transactions, GECS is taxable only on the portion of each payment that constitutes interest, unless the interest is tax-exempt (e.g., certain obligations of state governments).

Investment in direct financing and leveraged leases represents net unpaid rentals and estimated unguaranteed residual values of leased equipment, less related deferred income. GECS has no general obligation for principal and interest on notes and other instruments representing third-party participation related to leveraged leases; such notes and other instruments have not been included in liabilities but have been offset against the related rentals receivable. The GECS share of rentals receivable on leveraged leases is subordinate to the share of other participants who also have security interests in the leased equipment.

For federal income tax purposes, GECS is entitled to deduct the interest expense accruing on nonrecourse financing related to leveraged leases.

Net Investment in Financing Leases

December 31 (In millions)	Total financing leases 2008	Total financing leases 2007	Direct financing leases(a) 2008	Direct financing leases(a) 2007	Leveraged leases(b) 2008	Leveraged leases(b) 2007
Total minimum lease payments receivable	$ 81,115	$ 92,137	$ 63,309	$ 72,399	$ 17,806	$ 19,738
Less principal and interest on third-party nonrecourse debt	(12,720)	(14,102)	–	–	(12,720)	(14,102)
Net rentals receivable	68,395	78,035	63,309	72,399	5,086	5,636
Estimated unguaranteed residual value of leased assets	10,255	10,306	7,425	7,500	2,830	2,806
Less deferred income	(11,072)	(13,326)	(8,733)	(10,650)	(2,339)	(2,676)
Investment in financing leases, net of deferred income	67,578	75,015	62,001	69,249	5,577	5,766
Less amounts to arrive at net investment						
Allowance for losses	(498)	(571)	(440)	(559)	(58)	(12)
Deferred taxes	(7,317)	(7,089)	(3,082)	(2,654)	(4,235)	(4,435)
Net investment in financing leases	$ 59,763	$ 67,355	$ 58,479	$ 66,036	$ 1,284	$ 1,319

(a) Included $824 million and $802 million of initial direct costs on direct financing leases at December 31, 2008 and 2007, respectively.
(b) Included pre-tax income of $268 million and $412 million and income tax of $106 million and $156 million during 2008 and 2007, respectively. Net investment credits recognized on leveraged leases during 2008 and 2007 were inconsequential.

Contractual Maturities

(In millions)	Total loans	Net rentals receivable
Due in		
2009	$ 86,957	$ 19,819
2010	36,970	13,725
2011	30,902	10,624
2012	26,421	7,150
2013	21,624	4,752

2014 and later	107,329	12,325
Total	$ 310,203	$ 68,395

We expect actual maturities to differ from contractual maturities.

Individually impaired loans are defined by GAAP as larger balance or restructured loans for which it is probable that the lender will be unable to collect all amounts due according to original contractual terms of the loan agreement. An analysis of impaired loans follows.

December 31 (In millions)	2008	2007
Loans requiring allowance for losses	$ 2,712	$ 986
Loans expected to be fully recoverable	871	391
Total impaired loans	$ 3,583	$ 1,377
Allowance for losses	$ 635	$ 361
Average investment during year	2,064	1,576
Interest income earned while impaired(a)	27	19

(a) Recognized principally on cash basis.

NOTE 13. GECS ALLOWANCE FOR LOSSES ON FINANCING RECEIVABLES

(In millions)	Balance January 1, 2008	Provision charged to operations	Currency exchange	Other(a)	Gross write-offs	Recoveries	Balance December 31, 2008
CLL							
Equipment and leasing and other	$ 661	$ 838	$ 24	$ 91	$ (815)	$ 95	$ 894
Commercial and industrial	276	544	(12)	4	(416)	19	415
GE Money							
Non-U.S. residential mortgages	246	323	(40)	2	(218)	69	382
Non-U.S. installment and revolving credit	1,371	1,748	(194)	(223)	(2,551)	900	1,051
U.S. installment and revolving credit	985	3,217	–	(624)	(2,173)	295	1,700
Non-U.S. auto	324	376	(48)	(76)	(637)	283	222
Other	162	220	(17)	28	(248)	69	214
Real Estate	168	135	(7)	16	(12)	1	301
Energy Financial Services	19	36	–	3	–	–	58
GECAS	8	53	–	–	(1)	–	60
Other	18	28	–	–	(18)	–	28

Total	$ 4,238	$ 7,518	$ (294)	$ (779)	$ (7,089)	$ 1,731	$ 5,325

(a) Other primarily included the effects of acquisitions, dispositions, reclassifications to held for sale and securitization activity.

(In millions)	Balance January 1, 2007	Provision charged to operations	Currency exchange	Other(a)	Gross write-offs	Recoveries	Balance December 31, 2007
CLL							
Equipment and leasing and other	$ 427	$ 309	$ 25	$ 207	$ (422)	$ 115	$ 661
Commercial and industrial	314	192	10	(36)	(230)	26	276
GE Money							
Non-U.S. residential mortgages	415	(139)	10	(3)	(129)	92	246
Non-U.S. installment and revolving credit	1,253	1,669	92	(115)	(2,324)	796	1,371
U.S. installment and revolving credit	876	1,960	–	(703)	(1,505)	357	985
Non-U.S. auto	279	279	23	34	(653)	362	324
Other	158	122	4	6	(198)	70	162
Real Estate	155	24	3	3	(25)	8	168
Energy Financial Services	29	(10)	–	–	–	–	19
GECAS	15	16	–	–	(23)	–	8
Other	24	9	–	–	(17)	2	18
Total	$ 3,945	$ 4,431	$ 167	$ (607)	$ (5,526)	$ 1,828	$ 4,238

(a) Other primarily included the effects of acquisitions and securitization activity.

(In millions)	Balance January 1, 2006	Provision charged to operations	Currency exchange	Other(a)	Gross write-offs	Recoveries	Balance December 31, 2006
CLL							
Equipment and leasing and other	$ 590	$ 67	$ 9	$ (8)	$ (369)	$ 138	$ 427
Commercial and industrial	338	57	10	13	(155)	51	314
GE Money							
Non-U.S. residential mortgages	397	69	34	(8)	(177)	100	415
Non-U.S. installment and revolving credit	1,060	1,382	60	36	(2,010)	725	1,253
U.S. installment and revolving credit	701	1,175	–	(217)	(1,045)	262	876
Non-U.S. auto	238	284	24	12	(591)	312	279
Other	165	80	18	8	(184)	71	158
Real Estate	189	(5)	1	4	(39)	5	155
Energy Financial Services	41	(12)	–	–	–	–	29
GECAS	179	(52)	–	–	(112)	–	15
Other	22	17	–	12	(29)	2	24
Total	$ 3,920	$ 3,062	$ 156	$ (148)	$ (4,711)	$ 1,666	$ 3,945

(a) Other primarily included the effects of acquisitions and securitization activity.

See Note 12 for amounts related to consolidated, liquidating securitization entities.

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

December 31 (Dollars in millions)	Depreciable lives-new (in years)	2008	2007
Original cost			
GE			
Land and improvements	8(a)	$ 738	$ 698
Buildings, structures and related equipment	8-40	7,354	7,700
Machinery and equipment	4-20	22,114	20,569
Leasehold costs and manufacturing plant under construction	1-10	2,305	2,121
		32,511	31,088
GECS(b)			
Land and improvements, buildings, structures and related equipment	2-40(a)	7,076	6,051
Equipment leased to others			
Aircraft	20	40,478	37,271
Vehicles	1-14	32,098	32,079
Railroad rolling stock	5-36	4,402	3,866
Construction and manufacturing	2-25	3,363	3,031
Mobile equipment	12-25	2,954	2,964
All other	2-40	2,789	2,961
		93,160	88,223
Total		$ 125,671	$ 119,311
Net carrying value			
GE			
Land and improvements		$ 705	$ 612
Buildings, structures and related equipment		3,768	4,101
Machinery and equipment		7,999	7,634
Leasehold costs and manufacturing plant under construction		1,961	1,795
		14,433	14,142
GECS(b)			
Land and improvements, buildings, structures and related equipment		4,527	3,703
Equipment leased to others			
Aircraft(c)		32,288	30,414
Vehicles		18,149	20,701
Railroad rolling stock		2,915	2,789
Construction and manufacturing		2,333	2,055
Mobile equipment		2,022	1,976
All other		1,863	2,108
		64,097	63,746
Total		$ 78,530	$ 77,888

(a) Depreciable lives exclude land.

(b) Included $1,748 million and $1,513 million of original cost of assets leased to GE with accumulated amortization of $491 million and $315 million at December 31, 2008 and 2007, respectively.

(c) The GECAS business of Capital Finance recognized impairment losses of $72 million in 2008 and $110 million in 2007 recorded in the caption “Other costs and expenses” in the Statement of Earnings to reflect adjustments to fair value based on current market values from independent appraisers.

Amortization of GECS equipment leased to others was $8,173 million, $7,222 million and $5,839 million in 2008, 2007 and 2006, respectively. Noncancellable future rentals due from customers for equipment on operating leases at December 31, 2008, are as follows:

(In millions)	
Due in	
2009	$ 9,103
2010	7,396
2011	5,542
2012	4,157
2013	3,109
2014 and later	8,714
Total	$ 38,021

NOTE 15. GOODWILL AND OTHER INTANGIBLE ASSETS

December 31 (In millions)	2008	2007
Goodwill		
GE	$ 56,394	$ 55,689
GECS	25,365	25,427
Total	$ 81,759	$ 81,116

December 31 (In millions)	2008	2007
Other intangible assets		
GE		
Intangible assets subject to amortization	$ 9,010	$ 9,278
Indefinite-lived intangible assets(a)	2,354	2,355
	11,364	11,633
GECS		
Intangible assets subject to amortization	3,613	4,509
Total	$ 14,977	$ 16,142

(a) Indefinite-lived intangible assets principally comprised trademarks, tradenames and U.S. Federal Communications Commission licenses.

Changes in goodwill balances follow.

	2008				2007			
(In millions)	Balance January 1	Acquisitions/ purchase accounting adjustments	Dispositions, currency exchange and other	Balance December 31	Balance January 1(a)	Acquisitions/Dispositions, purchase accounting adjustments	currency exchange and other	Balance December 31

Energy Infrastructure	$ 9,960	$ 750	$ (767)	$ 9,943	$ 7,956	$ 1,818	$ 186	$ 9,960
Technology Infrastructure	26,130	1,116	(562)	26,684	22,043	4,292	(205)	26,130
NBC Universal	18,733	403	(163)	18,973	18,000	733	–	18,733
Capital Finance	25,427	2,024	(2,086)	25,365	22,754	1,938	735	25,427
Consumer & Industrial	866	–	(72)	794	557	(22)	331	866
Total	$ 81,116	$ 4,293	$ (3,650)	$ 81,759	$ 71,310	$ 8,759	$ 1,047	$ 81,116

(a) January 1, 2007, balance decreased by $89 million related to new accounting standards. See Note 1.

Goodwill balances increased $3,694 million in 2008 from new acquisitions. The most significant increases related to acquisitions of Hydril Pressure Control ($725 million) at Energy Infrastructure, Merrill Lynch Capital ($643 million) at Capital Finance, Vital Signs ($594 million) and Whatman plc. ($592 million) at Technology Infrastructure, Bank BPH ($470 million) at Capital Finance, CDM Resource Management, Ltd. ($229 million) at Capital Finance and CitiCapital ($166 million) at Capital Finance. During 2008, the goodwill balance increased by $599 million related to purchase accounting adjustments for prior-year acquisitions. The most significant of these adjustments were increases of $267 million and $171 million associated with the 2007 acquisitions of Oxygen Media Corp. by NBC Universal and Sanyo Electric Credit Co., Ltd. by Capital Finance, respectively. In 2008, goodwill balances decreased $2,639 million as a result of the stronger U.S. dollar.

Goodwill balances increased $9,028 million in 2007 from new acquisitions. The most significant increases related to acquisitions of Smiths Aerospace Group Ltd. ($3,877 million) by Technology Infrastructure; Vetco Gray ($1,379 million) by Energy Infrastructure; Diskont und Kredit AG and Disko Leasing GmbH (DISKO) and ASL Auto Service-Leasing GmbH (ASL), the leasing businesses of KG Allgemeine Leasing GmbH & Co. ($694 million) by Capital Finance; Oxygen Media ($604 million) by NBC Universal; and Sanyo Electric Credit Co., Ltd. ($548 million) by Capital Finance. During 2007, the goodwill balance declined by $269 million related to purchase accounting adjustments for prior-year acquisitions.

Upon closing an acquisition, we estimate the fair values of assets and liabilities acquired and consolidate the acquisition as quickly as possible. Given the time it takes to obtain pertinent information to finalize the acquired company’s balance sheet, then to adjust the acquired company’s accounting policies, procedures, and books and records to our standards, it is often several quarters before we are able to finalize those initial fair value estimates. Accordingly, it is not uncommon for our initial estimates to be subsequently revised.

We test goodwill for impairment at least annually. Given the significant changes in the business climate for financial services and our stated strategy to reduce our Capital Finance ending net investment, we re-tested goodwill for impairment at the reporting units within Capital Finance during the fourth quarter of 2008. In performing this analysis, we revised our estimated future cash flows and discount rates, as appropriate, to reflect current market conditions in the financial services industry. In each case, no impairment was indicated. Reporting units within Capital Finance are CLL, GE Money, Real Estate, Energy Financial Services and GECAS, which had goodwill balances at December 31, 2008 of $12,784 million, $9,081 million, $1,183 million, $2,162 million and $155 million, respectively.

Intangible Assets Subject to Amortization

December 31 (In millions)	Gross carrying amount	Accumulated amortization	Net
GE			
2008			
Customer-related	$ 4,551	$ (900)	$ 3,651
Patents, licenses and trademarks	4,751	(1,690)	3,061
Capitalized software	4,706	(2,723)	1,983
All other	470	(155)	315
Total	$ 14,478	$ (5,468)	$ 9,010
2007			
Customer-related	$ 4,526	$ (698)	$ 3,828
Patents, licenses and trademarks	4,561	(1,369)	3,192
Capitalized software	4,573	(2,589)	1,984
All other	436	(162)	274
Total	$ 14,096	$ (4,818)	$ 9,278
GECS			
2008			
Customer-related	$ 1,746	$ (613)	$ 1,133
Patents, licenses and trademarks	589	(460)	129
Capitalized software	2,170	(1,476)	694
Lease valuations	1,805	(594)	1,211
Present value of future profits	831	(401)	430
All other	181	(165)	16
Total	$ 7,322	$ (3,709)	$ 3,613
2007			
Customer-related	$ 2,395	$ (869)	$ 1,526
Patents, licenses and trademarks	428	(309)	119
Capitalized software	1,832	(1,095)	737
Lease valuations	1,841	(360)	1,481
Present value of future profits	818	(364)	454
All other	347	(155)	192
Total	$ 7,661	$ (3,152)	$ 4,509

During 2008, we recorded additions to intangible assets subject to amortization of $2,029 million. The components of finite-lived intangible assets acquired during 2008 and their respective weighted-average amortizable period are: $756 million – Customer-related (17.1 years); $382 million – Patents, licenses and trademarks (17.4 years); $765 million – Capitalized software (4.4 years); $38 million – Lease valuations (8.7 years); and $88 million – All other (9.4 years).

Consolidated amortization related to intangible assets subject to amortization was $2,091 million and $2,071 million for 2008 and 2007, respectively. We estimate that annual pre-tax amortization for intangible assets subject to amortization over the next five calendar years to be as follows: 2009 – $1,772 million; 2010 – $1,541 million; 2011 – $1,326 million; 2012– $1,145 million; 2013 – $957 million.

(110)

NOTE 16. ALL OTHER ASSETS

December 31 (In millions)	2008	2007
GE		
Investments		
Associated companies	$ 2,785	$ 1,871
Other	608	633
	3,393	2,504
Contract costs and estimated earnings	5,999	5,983
Film and television costs	4,667	4,143
Long-term receivables, including notes(a)	2,613	2,331
Derivative instruments	527	889
Pension asset – principal plans	–	20,190
Other(b)	5,236	4,568
	22,435	40,608
GECS		
Investments		
Real estate(c)(d)	36,679	40,488
Associated companies	18,694	17,025
Assets held for sale(e)	5,038	10,690
Cost method(d)	2,482	2,742
Other	1,854	1,018
	64,747	71,963
Derivative instruments	12,115	3,271
Advances to suppliers	2,187	2,046
Deferred acquisition costs	1,230	1,282
Other(b)	5,442	4,830
	85,721	83,392
Eliminations	(1,257)	(1,152)
Total	$ 106,899	$ 122,848

(a) Included loans to GECS of $1,038 million and $1,132 million at December 31, 2008 and 2007, respectively.

(b) Included $494 million at December 31, 2008, of unamortized fees related to our participation in the Temporary Liquidity Guarantee Program and the Commercial Paper Funding Facility.

(c) GECS investment in real estate consisted principally of two categories: real estate held for investment and equity method investments. Both categories contained a wide range of properties including the following at December 31, 2008: office buildings (45%), apartment buildings (17%), industrial properties (11%), retail facilities (9%), franchise properties (7%), parking facilities (2%) and other (9%). At December 31, 2008, investments were located in the Americas (47%), Europe (31%) and Asia (22%).

(d) The fair value of and unrealized loss on cost method investments in a continuous loss position for less than 12 months at December 31, 2008, were $565 million and $98 million, respectively. The fair value of and unrealized loss on cost method investments in a continuous loss position for 12 months or more at December 31, 2008, were $64 million and $4 million, respectively. The fair value of and unrealized loss on cost

method investments in a continuous loss position for less than 12 months at December 31, 2007, were $546 million and $93 million, respectively. The fair value of and unrealized loss on cost method investments in a continuous loss position for 12 months or more at December 31, 2007, were $18 million and $8 million, respectively.

(e) Assets were classified as held for sale on the date a decision was made to dispose of them through sale, securitization or other means. Such assets consisted primarily of credit card receivables, loans and real estate properties, and were accounted for at the lower of carrying amount or estimated fair value less costs to sell. These amounts are net of valuation allowances of $112 million and $153 million at December 31, 2008 and 2007, respectively.

NOTE 17. ASSETS AND LIABILITIES OF BUSINESSES HELD FOR SALE

On January 7, 2009, we exchanged our GE Money businesses in Austria and Finland, the credit card and auto businesses in the U.K., and the credit card business in Ireland for a 100% ownership interest in Interbanca S.p.A., a leading Italian corporate bank. Assets and liabilities of $7,887 million and $636 million, respectively, were classified as held for sale at December 31, 2008; we recognized a $184 million loss, net of tax, related to the classification of the assets held for sale at the lower of carrying amount or estimated fair value less costs to sell.

On December 24, 2008, we committed to sell a portion of our Australian residential mortgage business, including certain underlying mortgage receivables, and expect to complete this sale during the first quarter of 2009. Assets of $2,669 million were classified as held for sale at December 31, 2008 (liabilities were insignificant); we recognized a $38 million loss, net of tax, related to the classifications of the assets held for sale at the lower of carrying amount or estimated fair value less costs to sell.

Summarized financial information is shown below.

December 31 (In millions)	2008
Assets	
Cash and equivalents	$ 35
Financing receivables – net	9,915
Intangible assets – net	394
Other	212
Assets of businesses held for sale	$ 10,556
Liabilities	
Liabilities of businesses held for sale	$ 636

NOTE 18. BORROWINGS

Short-term Borrowings

December 31 (Dollars in millions)	2008 Amount	2008 Average rate(a)	2007 Amount	2007 Average rate(a)
GE				
Commercial paper				
U.S.	$ –	–%	$ 1,798	4.73%
Non-U.S.	1	7.82	1	4.00
Payable to banks	78	2.91	189	5.07
Current portion of long-term debt	1,703	0.84	1,547	5.36
Other	593		571	
	2,375		4,106	
GECS				
Commercial paper				
U.S.				
Unsecured(b)	62,768	2.12	72,392	4.69
Asset-backed(c)	3,652	2.57	4,775	4.94
Non-U.S.	9,033	4.12	28,711	4.99
Current portion of long-term debt(d)	69,682	3.83	56,301	5.01
Bank deposits(e)(f)	29,634	3.47	11,486	3.04
Bank borrowings(g)	10,028	2.75	6,915	5.31
GE Interest Plus notes(h)	5,633	3.58	9,590	5.23
Other	3,103		2,250	
	193,533		192,420	
Eliminations	(2,213)		(1,426)	
Total	$ 193,695		$ 195,100	

(a) Based on year-end balances and year-end local currency interest rates. Current portion of long-term debt included the effects of related interest rate and currency swaps, if any, directly associated with the original debt issuance.

(b) At December 31, 2008, GE Capital had issued and outstanding, $21,823 million of senior, unsecured debt that was guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program. GE Capital and GE entered into an Eligible Entity Designation Agreement and GE Capital is subject to the terms of a Master Agreement, each entered into with the FDIC. The terms of these agreements include, among other things, a requirement that GE and GE Capital reimburse the FDIC for any amounts that the FDIC pays to holders of debt that is guaranteed by the FDIC.

(c) Consists entirely of obligations of consolidated, liquidating securitization entities. See Note 12.

(d) Included $326 million and $1,106 million related to asset-backed senior notes, issued by consolidated, liquidating securitization entities at December 31, 2008

and 2007, respectively.

(e) Included $11,793 million and $10,789 million of deposits in non-U.S. banks at December 31, 2008 and 2007, respectively.

(f) Included certificates of deposits distributed by brokers of $17,841 million and $697 million at December 31, 2008 and 2007, respectively.

(g) Term borrowings from banks with a remaining term to maturity of less than 12 months.

(h) Entirely variable denomination floating rate demand notes.

Long-term Borrowings

December 31 (Dollars in millions)	2008 Average rate(a)	Maturities	2008	2007
GE				
Senior notes	5.11%	2013-2017	$ 8,962	$ 8,957
Industrial development/pollution control bonds	1.10	2011-2027	264	266
Payable to banks, principally U.S.	6.93	2010-2023	317	1,988
Other(b)			284	445
			9,827	11,656
GECS				
Senior notes				
Unsecured(c)	4.80	2010-2055	299,186	283,097
Asset-backed(d)	5.12	2010-2035	5,002	5,528
Extendible notes	–	–	–	8,500
Subordinated notes(e)	5.70	2012-2037	2,866	3,313
Subordinated debentures(f)	6.00	2066-2067	7,315	8,064
Bank deposits(g)	4.49	2010-2018	6,699	–
			321,068	308,502
Eliminations			(828)	(1,145)
Total			$ 330,067	$ 319,013

(a) Based on year-end balances and year-end local currency interest rates, including the effects of related interest rate and currency swaps, if any, directly associated with the original debt issuance.

(b) A variety of obligations having various interest rates and maturities, including certain borrowings by parent operating components and affiliates.

(c) At December 31, 2008, GE Capital had issued and outstanding, $13,420 million of senior, unsecured debt that was guaranteed by the FDIC under the Temporary Liquidity Guarantee Program. GE Capital and GE entered into an Eligible Entity Designation Agreement and GE Capital is subject to the terms of a Master Agreement, each entered into with the FDIC. The terms of these agreements include, among other things, a requirement that GE and GE Capital reimburse the FDIC for any amounts that the FDIC pays to holders of debt that is guaranteed by the FDIC.

(d) Included $2,104 million and $3,410 million of asset-backed senior notes, issued by consolidated, liquidating securitization entities at December 31, 2008 and 2007, respectively. See Note 12.

(e) Included $750 million of subordinated notes guaranteed by GE at December 31, 2008 and 2007.

(f) Subordinated debentures receive rating agency equity credit and were hedged at issuance to the U.S. dollar equivalent of $7,725 million.

(g) Entirely certificates of deposits with maturities greater than one year.

Our borrowings are addressed below from the perspectives of liquidity, interest rate and currency risk management. Additional information about borrowings and associated swaps can be found in Note 29.

Liquidity is affected by debt maturities and our ability to repay or refinance such debt. Long-term debt maturities over the next five years follow.

(In millions)	2009	2010	2011	2012	2013
GE	$ 1,703	$ 44	$ 65	$ 32	$ 5,022
GECS	69,682(a)	62,894	52,835	47,573	27,426

(a) Fixed and floating rate notes of $734 million contain put options with exercise dates in 2009, and which have final maturity beyond 2013.

Committed credit lines totaling $60.0 billion had been extended to us by 65 banks at year-end 2008. Availability of these lines is shared between GE and GECS with $12.6 billion and $60.0 billion available to GE and GECS, respectively. The GECS lines include $37.4 billion of revolving credit agreements under which we can borrow funds for periods exceeding one year. Additionally, $21.3 billion are 364-day lines that contain a term-out feature that allows GE or GECS to extend the borrowings for one year from the date of expiration of the lending agreement. We pay banks for credit facilities, but amounts were insignificant in each of the past three years.

Interest rate and currency risk is managed through the direct issuance of debt or use of derivatives. We take positions in view of anticipated behavior of assets, including prepayment behavior. We use a variety of instruments, including interest rate and currency swaps and currency forwards, to achieve our interest rate objectives.

The following table provides additional information about derivatives designated as hedges of borrowings in accordance with SFAS133, Accounting for Derivative Instruments and Hedging Activities, as amended.

Derivative Fair Values by Activity/Instrument

December 31 (In millions)	2008	2007
Cash flow hedges	$ (4,529)	$ 497
Fair value hedges	8,304	(75)
Total	$ 3,775	$ 422
Interest rate swaps	$ 3,425	$ (1,559)
Currency swaps	350	1,981
Total	$ 3,775	$ 422

We regularly assess the effectiveness of all hedge positions where required using a variety of techniques, including cumulative dollar offset and regression analysis, depending on which method was selected at inception of the respective hedge. Adjustments related to fair value hedges increased the carrying amount of debt outstanding at December 31, 2008, by $9,127 million. At December 31, 2008, the maximum term of derivative instruments that hedge forecasted transactions was 27 years. See Note 29.

NOTE 19. GECS INVESTMENT CONTRACTS, INSURANCE LIABILITIES AND INSURANCE ANNUITY BENEFITS

GECS investment contracts, insurance liabilities and insurance annuity benefits comprise mainly obligations to annuitants and policyholders in our run-off insurance operations and holders of guaranteed investment contracts.

December 31 (In millions)	2008	2007
Investment contracts	$ 4,212	$ 4,536
Guaranteed investment contracts	10,828	11,705
Total investment contracts	15,040	16,241
Life insurance benefits(a)	16,259	15,416
Unpaid claims and claims adjustment expenses	2,145	1,726
Unearned premiums	623	656
Universal life benefits	302	320
Total	$ 34,369	$ 34,359

(a) Life insurance benefits are accounted for mainly by a net-level-premium method using estimated yields generally ranging from 3.0% to 8.50% in both 2008 and 2007.

When insurance affiliates cede insurance to third parties, such as reinsurers, they are not relieved of their primary obligation to policyholders. Losses on ceded risks give rise to claims for recovery; we establish allowances for

probable losses on such receivables from reinsurers as required. Reinsurance recoverables are included in the caption “Other GECS receivables" on our Statement of Financial Position, and amounted to $1,062 million and $381 million at December 31, 2008 and 2007, respectively.

We recognize reinsurance recoveries as a reduction of the Statement of Earnings caption “Investment contracts, insurance losses and insurance annuity benefits.” Reinsurance recoveries were $221 million, $104 million and $162 million for the years ended December 31, 2008, 2007 and 2006, respectively.

NOTE 20. ALL OTHER LIABILITIES

This caption includes liabilities for various items including non-current compensation and benefits, deferred income, interest on tax liabilities, unrecognized tax benefits, accrued participation and residuals, environmental remediation, asset retirement obligations, derivative instruments, product warranties and a variety of sundry items.

Accruals for non-current compensation and benefits amounted to $22,543 million and $22,322 million for year-end 2008 and 2007, respectively. These amounts include postretirement benefits, pension accruals, and other compensation and benefit accruals such as deferred incentive compensation. The increase in 2008 was primarily the result of an increase in pension accruals, partially offset by a decrease in accrued deferred incentive compensation and benefits from new healthcare supplier contracts.

We are involved in numerous remediation actions to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs exclude possible insurance recoveries and, when dates and amounts of such costs are not known, are not discounted. When there appears to be a range of possible costs with equal likelihood, liabilities are based on the low end of such range. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop a meaningful estimate of the reasonably possible aggregate environmental remediation exposure.

NOTE 21. DEFERRED INCOME TAXES

Aggregate deferred income tax amounts are summarized below.

December 31 (In millions)	2008	2007
Assets		
GE	$ (13,493)	$ (13,122)
GECS	(11,180)	(6,293)
	(24,673)	(19,415)
Liabilities		
GE	9,544	16,513
GECS	19,713	15,392
	29,257	31,905
Net deferred income tax liability	$ 4,584	$ 12,490

Principal components of our net liability (asset) representing deferred income tax balances are as follows:

December 31 (In millions)	2008	2007
GE		
Intangible assets	$ 2,664	$ 2,609
Contract costs and estimated earnings	2,319	2,215
Depreciation	1,205	1,360
Investment in global subsidiaries	444	318
Pension asset – principal plans	–	7,067
Provision for expenses(a)	(6,578)	(6,426)
Retiree insurance plans	(4,355)	(4,616)
Non-U.S. loss carryforwards(b)	(800)	(925)
Other – net	1,152	1,789
	(3,949)	3,391
GECS		
Financing leases	7,317	7,089
Operating leases	4,882	4,478
Investment in global subsidiaries	2,127	(1,203)
Intangible assets	1,360	1,427
Allowance for losses	(2,459)	(1,478)
Cash flow hedges	(2,260)	(496)
Net unrealized losses on securities	(1,634)	(14)
Non-U.S. loss carryforwards(b)	(979)	(805)
Other – net	179	101
	8,533	9,099
Net deferred income tax liability	$ 4,584	$ 12,490

(a) Represented the tax effects of temporary differences related to expense accruals for a wide variety of items, such as employee compensation and benefits, pension plan liabilities, interest on tax liabilities, product warranties and other sundry items that are not currently deductible.

(b) Net of valuation allowances of $635 million and $557 million for GE and $260 million and $196 million for GECS, for 2008 and 2007, respectively. Of the net deferred tax asset as of December 31, 2008, of $1,779 million, $33 million relates to net operating loss carryforwards that expire in various years ending from December 31, 2009, through December 31, 2011; $160 million relates to net operating losses that expire in various years ending from December 31, 2012, through December 31, 2023; and $1,586 million relates to net operating loss carryforwards that may be carried forward indefinitely.

NOTE 22. MINORITY INTEREST IN EQUITY OF CONSOLIDATED AFFILIATES

Minority interest in equity of consolidated affiliates includes common shares in consolidated affiliates and preferred stock issued by affiliates of GE Capital. Preferred shares that we are required to redeem at a specified or determinable date are classified as liabilities. The balance is summarized as follows:

December 31 (In millions)	2008	2007
Minority interest in consolidated affiliates		
NBC Universal	$ 5,091	$ 5,025
Others(a)	3,579	2,698
Minority interest in preferred stock(b)		
GE Capital affiliates	277	281
Total	$ 8,947	$ 8,004

(a) Included minority interest in partnerships and common shares of consolidated affiliates.
(b) The preferred stock pays cumulative dividends at an average rate of 6.81%.

NOTE 23. SHAREOWNERS' EQUITY

(In millions)	2008	2007	2006
Preferred stock issued(a)(b)	$ –	$ –	$ –
Common stock issued(a)(b)	$ 702	$ 669	$ 669
Accumulated other comprehensive income			
Balance at January 1	$ 8,324	$ 3,254	$ 3,137
Investment securities – net of deferred taxes of $(2,528), $(510) and $111	(3,813)	(972)	297
Currency translation adjustments – net of deferred taxes of $4,082, $(1,319) and $(1,417)	(10,890)	4,662	3,776
Cash flow hedges – net of deferred taxes of $(1,982), $(213) and $75	(2,781)	23	599
Benefit plans – net of deferred taxes of $(7,379), $860 and $182(c)	(13,288)	2,566	287
Reclassification adjustments			
Investment securities – net of deferred taxes of $734, $(375) and $(279)	595	(512)	(520)
Currency translation adjustments	(117)	(135)	(127)
Cash flow hedges – net of deferred taxes of $295, $(119) and $(60)	117	(562)	(376)
Cumulative effect of change in accounting principle – net of deferred taxes of $(2,715)	–	–	(3,819)
Balance at December 31(d)	$ (21,853)	$ 8,324	$ 3,254
Other capital			
Balance at January 1	$ 26,100	$ 25,486	$ 25,227
Common stock issuance(b)	11,972	–	–
Preferred stock and warrant issuance(b)	2,965	–	–
Gains (losses) on treasury stock dispositions and other(b)	(647)	614	259
Balance at December 31	$ 40,390	$ 26,100	$ 25,486
Retained earnings			
Balance at January 1(e)	$ 117,362	$ 106,867	$ 96,926
Net earnings	17,410	22,208	20,742
Dividends(b)(f)	(12,649)	(11,713)	(10,675)
Balance at December 31	$ 122,123	$ 117,362	$ 106,993
Common stock held in treasury			
Balance at January 1	$ (36,896)	$ (24,893)	$ (17,326)
Purchases(b)	(3,508)	(14,913)	(10,512)
Dispositions(b)	3,707	2,910	2,945
Balance at December 31	$ (36,697)	$ (36,896)	$ (24,893)
Total equity			
Balance at December 31	$ 104,665	$ 115,559	$ 111,509

(a) Additions resulting from issuances in 2008 were inconsequential for preferred stock and $33 million for common stock.

(b) Total dividends and other transactions with shareowners, inclusive of additions to par value discussed in note (a), increased equity by $1,873 million in 2008, and reduced equity by $23,102 million in 2007 and $17,983 million in 2006.

(c) For 2008, included $(43) million of prior service costs for plan amendments, $534 million of amortization of prior service costs, $(13,980) million of gains (losses) arising during the year and $201 million of amortization of gains (losses) – net of deferred taxes of $(24) million, $441 million, $(7,893) million and $97 million, respectively. For 2007, included $(3,122) million of prior service costs for plan amendments, $494 million of amortization of prior service costs, $4,666 million of gains (losses) arising during the year and $528 million of amortization of gains (losses) – net of deferred taxes of $(2,482) million, $339 million, $2,639 million and $364 million, respectively.

(d) At December 31, 2008, included additions to equity of $2,865 million related to hedges of our investments in financial services subsidiaries that have functional currencies other than the U.S. dollar and reductions of $3,332 million related to cash flow hedges of forecasted transactions, of which we expect to transfer $1,892 million to earnings as an expense in 2009 along with the earnings effects of the related forecasted transaction.

(e) 2007 opening balance change reflects cumulative effect of changes in accounting principles of $(49) million related to adopting FIN 48 and $(77) million related to adoption of FSP FAS 13-2. The cumulative effect of adopting SFAS 159 at January 1, 2008, was insignificant. See Note 1.

(f) For 2008, included $75 million of dividends on preferred stock.

Shares of GE Preferred Stock

On October 16, 2008, GE issued 30,000 shares of GE's 10% cumulative perpetual preferred stock, par value $1.00 per share, having an aggregate liquidation value of $3.0 billion, and warrants to purchase 134,831,460 shares of GE's common stock, par value $0.06 per share, for an aggregate purchase price of $3.0 billion in cash. The preferred stock is redeemable at GE's option after three years, in whole or in part, at a price of 110% of liquidation value plus accrued and unpaid dividends. The warrants are exercisable at the holder's option at any time and from time to time, in whole or in part, for five years at an exercise price of $22.25 per share of common stock and are settled through physical share issuance. GE has 50 million authorized shares of preferred stock ($1.00 par value), and has issued 30 thousand shares as of December 31, 2008.

Shares of GE Common Stock

On September 25, 2008, we suspended our three-year, $15 billion share repurchase program, which was initiated in December 2007. Under this program, on a book basis, we repurchased 99.1 million shares for a total of $3.1 billion during 2008.

On October 7, 2008, GE completed an offering of 547.8 million shares of common stock at a price of $22.25 per share.

Common shares issued and outstanding are summarized in the following table.

December 31 (In thousands)	2008	2007	2006
Issued	11,693,829	11,145,252	11,145,212
In treasury	(1,156,932)	(1,157,653)	(867,839)
Outstanding	10,536,897	9,987,599	10,277,373

NOTE 24. OTHER STOCK-RELATED INFORMATION

We grant stock options, restricted stock units (RSUs) and performance share units (PSUs) to employees under the 2007 Long-Term Incentive Plan. This plan replaced the 1990 Long-Term Incentive Plan. In addition, we grant options and RSUs in limited circumstances to consultants, advisors and independent contractors (primarily non-employee talent at NBC Universal) under a plan approved by our Board of Directors in 1997 (the consultants' plan). There are outstanding grants under one shareowner-approved option plan for non-employee directors. Share requirements for all plans may be met from either unissued or treasury shares. Stock options expire 10 years from the date they are granted and vest over service periods that range from one to five years. RSUs give the recipients the right to receive shares of our stock upon the vesting of their related restrictions. Restrictions on RSUs vest in various increments and at various dates, beginning after one year from date of grant through grantee retirement. Although the plan permits us to issue RSUs settleable in cash, we have only issued RSUs settleable in shares of our stock. PSUs give recipients the right to receive shares of our stock upon the achievement of certain performance targets.

All grants of GE options under all plans must be approved by the Management Development and Compensation Committee, which consists entirely of independent directors.

Stock Compensation Plans

December 31, 2008 (Shares in thousands)	Securities to be issued upon exercise	Weighted average exercise price	Securities available for future issuance
Approved by shareowners			
Options	214,824	$ 36.30	(a)
RSUs	36,392	(b)	(a)
PSUs	1,050	(b)	(a)
Not approved by shareowners (Consultants' Plan)			
Options	683	35.85	(c)
RSUs	91	(b)	(c)
Total	253,040	$ 36.30	462,787

(a) In 2007, the Board of Directors approved the 2007 Long-Term Incentive Plan (the Plan). The Plan replaced the 1990 Long-Term Incentive Plan. The maximum number of shares that may be granted under the Plan is 500 million shares, of which no more than 250 million may be available for awards granted in any form provided under the Plan other than options or stock appreciation rights. The approximate 105.9 million shares available for grant under the 1990 Plan were retired upon approval of the 2007 Plan. Total shares available for future issuance under the 2007 Plan amounted to 439.0 million shares at December 31, 2008.

(b) Not applicable.

(c) Total shares available for future issuance under the consultants' plan amount to 23.8 million shares.

Outstanding options expire on various dates through December 11, 2018.

The following table summarizes information about stock options outstanding at December 31, 2008.

Stock Options Outstanding

(Shares in thousands)	Outstanding			Exercisable	
Exercise price range	Shares	Average life(a)	Average exercise price	Shares	Average exercise price
Under $27.00	784	4.6	$ 22.50	568	$ 23.94
27.01– 32.00	66,510	6.1	28.36	40,767	28.39
32.01– 37.00	61,593	4.6	34.73	47,045	34.91
37.01– 42.00	32,555	4.7	39.19	19,843	39.47
42.01– 47.00	42,045	2.0	43.29	42,045	43.29
Over $47.00	12,020	1.7	56.86	12,020	56.86

Total	215,507	4.4	$	36.30	162,288	$ 37.59

At year-end 2007, options with an average exercise price of $36.98 were exercisable on 168 million shares.
(a) Average contractual life remaining in years.

Stock Option Activity

	Shares (in thousands)	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding at January 1, 2008	213,382	$ 36.68		
Granted	25,317	28.21		
Exercised	(13,271)	26.62		
Forfeited	(2,831)	35.18		
Expired	(7,090)	37.40		
Outstanding at December 31, 2008	215,507	$ 36.30	4.4	$ –
Exercisable at December 31, 2008	162,288	$ 37.59	3.0	$ –
Options expected to vest	47,092	$ 32.45	8.5	$ –

We measure the fair value of each stock option grant at the date of grant using a Black-Scholes option pricing model. The weighted average grant-date fair value of options granted during 2008, 2007 and 2006 was $5.26, $9.28 and $7.99, respectively. The following assumptions were used in arriving at the fair value of options granted during 2008, 2007 and 2006, respectively: risk-free interest rates of 3.4%, 4.2% and 4.8%; dividend yields of 4.4%, 2.9% and 2.9%; expected volatility of 27%, 25% and 24%; and expected lives of six years and nine months, six years and ten months, and six years and two months. Risk-free interest rates reflect the yield on zero-coupon U.S. Treasury securities. Expected dividend yields presume a set dividend rate. For stock options granted in the fourth quarter of 2008, we used a historical five-year average for the dividend yield. Expected volatilities are based on implied volatilities from traded options and historical volatility of our stock. The expected option lives are based on our historical experience of employee exercise behavior.

The total intrinsic value of options exercised during 2008, 2007 and 2006 amounted to $45 million, $375 million and $587 million, respectively. As of December 31, 2008, there was $251 million of total unrecognized compensation cost related to nonvested options. That cost is expected to be recognized over a weighted average period of two years, of which approximately $84 million is expected to be recognized in 2009.

Stock option expense recognized in net earnings amounted to $69 million in both 2008 and 2007, and $96 million in 2006. Cash received from option exercises during 2008, 2007 and 2006 was $353 million, $747 million and $622 million, respectively. The tax benefit realized from stock options exercised during 2008, 2007 and 2006 was $15 million, $131 million and $203 million, respectively.

Other Stock-based Compensation

	Shares (in thousands)	Weighted average grant date fair value	Weighted average remaining contractual term (in years)	Aggregate intrinsic value (in millions)

RSUs outstanding at January 1, 2008	37,129	$	33.48			
Granted	10,794		28.74			
Vested	(9,445)		31.34			
Forfeited	(1,995)		34.61			
RSUs outstanding at December 31, 2008	36,483	$	32.57	2.9	$	591
RSUs expected to vest	33,239	$	32.61	2.8	$	538

(121)

The fair value of each restricted stock unit is the market price of our stock on the date of grant. The weighted average grant date fair value of RSUs granted during 2008, 2007 and 2006 was $28.74, $38.84 and $33.95, respectively. The total intrinsic value of RSUs vested during 2008, 2007 and 2006 amounted to $274 million, $181 million and $132 million, respectively. As of December 31, 2008, there was $687 million of total unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted average period of two years, of which approximately $205 million is expected to be recognized in 2009. As of December 31, 2008, 1.1 million PSUs with a weighted average remaining contractual term of two years, an aggregate intrinsic value of $17 million and $10 million of unrecognized compensation cost were outstanding.

Other share-based compensation expense recognized in net earnings amounted to $155 million, $173 million and $130 million in 2008, 2007 and 2006, respectively. The total income tax benefit recognized in earnings for all share-based compensation arrangements amounted to $106 million, $118 million and $117 million in 2008, 2007 and 2006, respectively.

When stock options are exercised and restricted stock vests, the difference between the assumed tax benefit and the actual tax benefit must be recognized in our financial statements. In circumstances in which the actual tax benefit is lower than the estimated tax benefit, SFAS 123(R) requires that difference to be recorded in equity, to the extent there are sufficient accumulated excess tax benefits, as defined by the standard. At December 31, 2008, our accumulated excess tax benefits are sufficient to absorb any future differences between actual and estimated tax benefits for all of our outstanding option and restricted stock grants.

NOTE 25. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in operating assets and liabilities are net of acquisitions and dispositions of principal businesses.

Amounts reported in the “Payments for principal businesses purchased” line in the Statement of Cash Flows is net of cash acquired and included debt assumed and immediately repaid in acquisitions.

Amounts reported in the “All other operating activities” line in the Statement of Cash Flows consists primarily of adjustments to current and noncurrent accruals and deferrals of costs and expenses, adjustments for gains and losses on assets, increases and decreases in assets held for sale and adjustments to assets. In 2008, GE received $300 million (12.7 million shares) worth of its shares in connection with the disposition of NBC Universal’s 57% interest in the Sundance Channel. There were no significant non-cash transactions in 2007. In 2006, we had a significant non-cash transaction in connection with our sale of GE Insurance Solutions: Swiss Re assumed $1,700 million of debt, and GE received $2,238 million of newly issued Swiss Re common stock. See Note 2.

Certain supplemental information related to GE and GECS cash flows is shown below.

December 31 (In millions)	2008	2007	2006
GE			
Net dispositions (purchases) of GE shares for treasury			
Open market purchases under share repurchase program	$ (3,222)	$ (13,896)	$ (8,054)
Other purchases	(286)	(1,017)	(2,458)
Dispositions	2,259	2,594	1,958
	$ (1,249)	$ (12,319)	$ (8,554)
GECS			
All other operating activities			
Net change in other assets	$ (1,461)	$ (1,507)	$ (1,709)
Amortization of intangible assets	994	879	599
Realized losses (gains) on investment securities	1,260	(885)	(132)
Change in other liabilities	4,514	3,378	3,345
Other	3,201	(2,404)	(1,068)
	$ 8,508	$ (539)	$ 1,035
Net increase in GECS financing receivables			
Increase in loans to customers	$ (411,913)	$ (408,611)	$ (371,835)
Principal collections from customers – loans	363,455	322,074	296,708
Investment in equipment for financing leases	(21,671)	(26,489)	(25,618)
Principal collections from customers – financing leases	20,159	20,868	18,791
Net change in credit card receivables	(34,498)	(38,405)	(25,787)
Sales of financing receivables	67,093	86,399	67,471
	$ (17,375)	$ (44,164)	$ (40,270)
All other investing activities			
Purchases of securities by insurance activities	$ (4,190)	$ (13,279)	$ (11,891)
Dispositions and maturities of securities by insurance activities	4,690	15,602	11,635
Other assets – investments	(205)	(10,218)	(6,242)
Change in other receivables	3,331	(2,456)	(55)
Other	2,353	1,621	558
	$ 5,979	$ (8,730)	$ (5,995)
Newly issued debt having maturities longer than 90 days			
Short-term (91 to 365 days)	$ 34,445	$ 1,226	$ 1,237
Long-term (longer than one year)	87,949	90,769	86,028
Proceeds – nonrecourse, leveraged lease	113	24	1,015
	$ 122,507	$ 92,019	$ 88,280
Repayments and other reductions of debt having maturities longer than 90 days			
Short-term (91 to 365 days)	$ (66,015)	$ (43,937)	$ (42,273)
Long-term (longer than one year)	(462)	(4,482)	(5,576)
Principal payments – nonrecourse, leveraged lease	(637)	(1,109)	(1,404)
	$ (67,114)	$ (49,528)	$ (49,253)
All other financing activities			

Proceeds from sales of investment contracts	$ 11,433	$ 12,641	$ 16,418
Redemption of investment contracts	(13,304)	(13,862)	(17,603)
Capital contribution	5,500	–	–
Other	9	17	11
	$ 3,638	$ (1,204)	$ (1,174)

NOTE 26. INTERCOMPANY TRANSACTIONS

Effects of transactions between related companies are eliminated and consist primarily of GECS dividend to GE; GE customer receivables sold to GECS; GECS services for trade receivables management and material procurement; buildings and equipment (including automobiles) leased by GE from GECS; information technology (IT) and other services sold to GECS by GE; aircraft engines manufactured by GE that are installed on aircraft purchased by GECS from third-party producers for lease to others; medical equipment manufactured by GE that is leased by GECS to others; and various investments, loans and allocations of GE corporate overhead costs.

These intercompany transactions are reported in the GE and GECS columns of our financial statements (and include customer receivables sold from GE to GECS), but are eliminated in deriving our Consolidated financial statements. The effects of these eliminations on our Consolidated cash flows from operating, investing and financing activities follow.

December 31 (In millions)	2008	2007	2006
Operating			
Sum of GE and GECS cash from operating activities – continuing operations	$ 50,290	$ 48,316	$ 45,351
Elimination of GECS dividend to GE	(2,351)	(7,291)	(9,847)
Net decrease (increase) in GE customer receivables sold to GECS	90	(255)	(2,036)
Other reclassifications and eliminations	(188)	(828)	(956)
Consolidated cash from operating activities – continuing operations	$ 47,841	$ 39,942	$ 32,512
Investing			
Sum of GE and GECS cash used for investing activities – continuing operations	$ (39,615)	$ (67,845)	$ (54,132)
Net increase (decrease) in GE customer receivables sold to GECS	(90)	255	2,036
Other reclassifications and eliminations	(320)	1,202	1,223
Consolidated cash used for investing activities – continuing operations	$ (40,025)	$ (66,388)	$ (50,873)
Financing			
Sum of GE and GECS cash from financing activities – continuing operations	$ 22,760	$ 18,751	$ 16,772
Elimination of short-term intercompany borrowings(a)	(787)	1,950	(2,732)
Elimination of GECS dividend to GE	2,351	7,291	9,847
Other reclassifications and eliminations	316	99	(48)
Consolidated cash from financing activities – continuing operations	$ 24,640	$ 28,091	$ 23,839

(a) Represents GE investment in GECS short-term borrowings, such as commercial paper.

NOTE 27. OPERATING SEGMENTS

Basis for presentation

Our operating businesses are organized based on the nature of markets and customers. Segment accounting policies are the same as described in Note 1. Segment results for our financial services businesses reflect the discrete tax effect of transactions, but the intraperiod tax allocation is reflected outside of the segment unless otherwise noted in segment results.

Effects of transactions between related companies are eliminated and consist primarily of GECS dividend to GE; GE customer receivables sold to GECS; GECS services for trade receivables management and material procurement; buildings and equipment (including automobiles) leased by GE from GECS; IT and other services sold to GECS by GE; aircraft engines manufactured by GE that are installed on aircraft purchased by GECS from third-party producers for lease to others; medical equipment manufactured by GE that is leased by GECS to others; and various investments, loans and allocations of GE corporate overhead costs.

A description of our operating segments as of December 31, 2008, can be found below, and details of segment profit by operating segment can be found in the Summary of Operating Segments table in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-K Report.

Energy Infrastructure

Power plant products and services, including design, installa−tion, operation and maintenance services are sold into global markets. Gas, steam and aeroderivative turbines, generators, combined cycle systems, controls and related services, including total asset optimization solutions, equipment upgrades and long-term maintenance service agreements are sold to power genera−tion and other industrial customers. Renewable energy solutions include wind turbines and solar technology. Water treatment services and equipment include specialty chemical treatment programs, water purification equipment, mobile treatment systems and desalination processes.

The Oil & Gas business sells surface and subsea drilling and production systems, equipment for floating production platforms, compressors, turbines, turboexpanders and high pressure reactors to national, international and independent oil and gas companies. Services include equipment overhauls and upgrades, pipeline inspection and integrity services, remote diagnostic and monitoring and contractual service agreements. The acquisition of Hydril Pressure Controls in April 2008 strengthened the drilling solutions portfolio through the addition of blow out preventers, control technology and associated services.

Technology Infrastructure

Aviation products and services include jet engines, aerospace systems and equipment, replacement parts and repair and maintenance services for all categories of commercial aircraft; for a wide variety of military aircraft, includ−ing fighters, bombers, tankers and helicopters; for marine appli−cations; and for executive and regional aircraft. Products and services are sold worldwide to airframe manufacturers, airlines and government agencies.

Healthcare products include diagnostic imaging systems such as magnetic resonance (MR), computed tomography (CT) and positron emission tomography (PET) scanners, X-ray, nuclear imaging and ultrasound. Healthcare manufactured technologies include patient monitoring, diagnostic cardiology, bone densitometry, anesthesiology, and oxygen therapy, and neonatal and critical care devices. Related services, including equipment monitoring and repair, information technologies and customer productivity services. Products also include diagnostic imaging agents used in medical scanning procedures, products used in the purification of biopharmaceuticals, and tools for pro−tein and cellular analysis for pharmaceutical and academic research. Products and services are sold worldwide to hospitals, medical facilities, pharmaceutical and biotechnology companies, and to the life science research market.

Transportation products and maintenance services include diesel electric locomotives, transit propulsion equipment, motorized wheels for off-highway vehicles, gearing technology for wind turbines, drill motors, marine and stationary power generation, and railway signaling and office systems.

Enterprise Solutions offers integrated solutions using sensors for temperature, pressure, moisture, gas and flow rate as well as non-destructive testing inspection equipment, including radiographic, ultrasonic, remote visual and eddy current. Enterprise Solutions also offers security and life safety technologies, including explosives and narcotics detection, intrusion and access control, video surveillance and sensor monitoring equipment, and fire detection and provides protection and control, communications, power sensing and power quality products and services that increase the reliability of electrical power networks and critical equipment and offering wireless data transmission. Plant automation, hardware, software and embedded computing systems including controllers, embedded systems, advanced software, motion control, computer numerical controls, operator interfaces, industrial computers, and lasers are also provided by Enterprise Solutions. Markets are extremely diverse. Products and services are sold to residential,

commercial and industrial end-users, including utilities, original equipment manufacturers, electrical distributors, retail outlets, airports, railways, and transit authorities. Increasingly, products and services are developed for and sold in global markets.

NBC Universal

Principal businesses are the broadcast of U.S. network television, production and distribution of films and television programs, operation of television stations, operation of cable/satellite television networks around the world, operation of theme parks, and investment and programming activities in digital media and the Internet.

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Capital Finance

CLL products include loans, leases and other financial services to customers, includ−ing manufacturers, distributors and end-users for a variety of equipment and major capital assets. These assets include indus−trial-related facilities and equipment; commercial and residential real estate; vehicles; corporate aircraft; and equipment used in many industries, including the construction, manufacturing, transportation, telecommunications and healthcare industries.

GE Money offers a range of financial products including private-label credit cards; personal loans; bank cards; auto loans and leases; mortgages; debt consolidation; home equity loans; deposits and other savings products; and small and medium enterprise lending on a global basis.

Capital Finance also provides financial products to airlines, aircraft operators, owners, lend−ers and investors, including leases, aircraft purchasing and trading, loans, engine/spare parts financing, fleet planning and financial advisory services.

Financial products to the global energy and water industries include structured and common equity, debt, leasing, project finance, broad-based commercial finance and investments in operating leases.

Consumer & Industrial

Products include major appliances and related services for products such as refrig−erators, freezers, electric and gas ranges, cooktops, dishwashers, clothes washers and dryers, microwave ovens, room air condition−ers and residential water system products. These products are distributed both to retail outlets and direct to consumers, mainly for the replacement market, and to building contractors and distributors for new installations. Lighting products include a wide variety of lamps and lighting fixtures, including light-emitting diodes. Electrical equipment and control products include lighting and power panels, switchgear, and circuit breakers. Products and services are sold in North America and in global markets under various GE and private-label brands.

Revenues

	Total revenues(a)			Intersegment revenues(b)			External revenues		
(In millions)	2008	2007	2006	2008	2007	2006	2008	2007	2006
Energy Infrastructure	$ 38,571	$ 30,698	$ 25,221	$ 664	$ 351	$ 488	$ 37,907	$ 30,347	$ 24,733
Technology Infrastructure	46,316	42,801	37,687	273	113	216	46,043	42,688	37,471
NBC Universal	16,969	15,416	16,188	89	35	52	16,880	15,381	16,136
Capital Finance	67,008	66,301	56,378	1,333	1,128	1,013	65,675	65,173	55,365
Consumer & Industrial	11,737	12,663	13,202	196	143	235	11,541	12,520	12,967
Corporate items and eliminations	1,914	4,609	2,892	(2,555)	(1,770)	(2,004)	4,469	6,379	4,896
Total	$ 182,515	$ 172,488	$ 151,568	$ –	$ –	$ –	$ 182,515	$ 172,488	$ 151,568

(a) Revenues of GE businesses include income from sales of goods and services to customers and other income.

(b)

Sales from one component to another generally are priced at equivalent commercial selling prices.

Revenues from customers located in the United States were $85,301 million, $86,247 million and $81,057 million in 2008, 2007 and 2006, respectively. Revenues from customers located outside the United States were $97,214 million, $86,241 million and $70,511 million in 2008, 2007 and 2006, respectively.

(In millions)	Assets(a)(b) At December 31 2008	2007	2006	Property, plant and equipment additions(c) For the years ended December 31 2008	2007	2006	Depreciation and amortization For the years ended December 31 2008	2007	2006
Energy Infrastructure	$ 33,836	$ 31,466	$ 24,456	$ 1,226	$ 1,054	$ 867	$ 838	$ 774	$ 672
Technology Infrastructure	58,967	57,670	49,641	1,395	1,954	1,389	1,520	1,569	1,269
NBC Universal	33,781	33,089	31,425	131	306	352	354	357	361
Capital Finance	572,903	583,965	491,000	15,313	17,832	14,489	10,238	8,864	6,971
Consumer & Industrial	5,065	5,351	5,740	284	363	373	397	434	497
Corporate items and eliminations	93,217	84,142	95,011	281	247	195	221	310	262
Total	$ 797,769	$ 795,683	$ 697,273	$ 18,630	$ 21,756	$ 17,665	$ 13,568	$ 12,308	$ 10,032

(a) Assets of discontinued operations are included in Corporate items and eliminations for all periods presented.

(b) Total assets of the Energy Infrastructure, Technology Infrastructure, NBC Universal, Capital Finance and Consumer & Industrial operating segments at December 31, 2008, include investment in and advances to associated companies of $640 million, $711 million, $954 million, $18,694 million and $394 million, respectively, which contributed approximately $91 million, $67 million, $134 million, $2,217 million and $33 million, respectively, to segment pre-tax income for the year ended December 31, 2008. Aggregate summarized financial information for significant associated companies assuming a 100% ownership interest included: total assets of $154,825 million, primarily financing receivables of $85,554 million; total liabilities of $128,959 million, primarily bank deposits of $65,514 million; revenues totaling $22,347 million; and net earnings totaling $3,583 million.

(c) Additions to property, plant and equipment include amounts relating to principal businesses purchased.

(In millions)	Interest and other financial charges 2008	2007	2006	Provision (benefit) for income taxes 2008	2007	2006
Capital Finance	$ 25,094	$ 22,611	$ 17,079	$ (1,914)	$ 1,225	$ 1,560
Corporate items and eliminations(a)	1,115	1,151	1,800	2,966	2,930	2,384
Total	$ 26,209	$ 23,762	$ 18,879	$ 1,052	$ 4,155	$ 3,944

(a)

Included amounts for Energy Infrastructure, Technology Infrastructure, NBC Universal and Consumer & Industrial for which our measure of segment profit excludes interest and other financial charges and income taxes.

Property, plant and equipment – net associated with operations based in the United States were $27,667 million, $27,188 million and $25,699 million at year-end 2008, 2007 and 2006, respectively. Property, plant and equipment – net associated with operations based outside the United States were $50,863 million, $50,700 million and $44,929 million at year-end 2008, 2007 and 2006, respectively.

NOTE 28. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS 157, Fair Value Measurements, for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS 157 establishes a three-level valuation hierarchy based upon observable and non-observable inputs.

For financial assets and liabilities, fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

We maintain policies and procedures to value instruments using the best and most relevant data available. In addition, we have risk management teams that review valuation, including independent price validation for certain instruments. Further, in other instances, we retain independent pricing vendors to assist in valuing certain instruments.

The following section describes the valuation methodologies we use to measure different financial instruments at fair value.

Investments in debt and equity securities

When available, we use quoted market prices to determine the fair value of investment securities, and they are included in Level 1. Level 1 securities primarily include publicly-traded equity securities.

When quoted market prices are unobservable, we use quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. These investments are included in Level 2 and primarily comprise our portfolio of corporate fixed income, and government, mortgage and asset-backed securities. In infrequent circumstances, our pricing vendors may provide us with valuations that are based on significant unobservable inputs, and in those circumstances we classify the investment securities in Level 3.

As part of our adoption of SFAS 157 in the first quarter of 2008, we conducted a review of our primary pricing vendor, with the assistance of an accounting firm, to validate that the inputs used in that vendor’s pricing process are deemed to be market observable as defined in the standard. More specifically, we used a combination of approaches to validate that the process used by the pricing vendor is consistent with the requirements of the standard and that the levels assigned to these valuations are reasonable. While we were not provided access to proprietary models of the vendor, our review included on-site walk-throughs of the pricing process, methodologies and control procedures for each asset class for which prices are provided. Our review also included an examination of the underlying inputs and assumptions for a sample of individual securities, a process we have continued to perform for each reporting period. Based on this examination, and the ongoing review performed, we believe that the valuations used in our financial statements are reasonable and are appropriately classified in the fair value hierarchy. As of December 31, 2008, the valuation provided by pricing services was $26,654 million and was classified in Level 2. The valuations provided by pricing services based on significant unobservable inputs was insignificant, and those investment securities are classified as Level 3.

Retained interests in securitizations are valued using a discounted cash flow model that considers the underlying structure of the securitization and estimated net credit exposure, prepayment assumptions, discount rates and expected life. Investment securities priced using non-binding broker quotes and retained interests are included in Level 3. We use non-binding broker quotes as our primary basis for valuation when there is limited, or no, relevant market activity

for a specific instrument or for other instruments that share similar characteristics. We have not adjusted the prices we have obtained. Level 3 investment securities valued using non-binding broker quotes totaled $2,074 million at December 31, 2008, and were classified as available-for-sale securities. Level 3 retained interests totaled $6,356 million at December 31, 2008.

We receive one quote for Level 2 and Level 3 securities where third-party quotes are used as our basis for fair value measurement. As is the case with our primary pricing vendor, third-party providers of quotes do not provide access to their proprietary valuation models, inputs and assumptions. Accordingly, our risk management personnel conduct internal reviews of pricing for all such investment securities at least quarterly to ensure reasonableness of valuations used in our financial statements. These reviews are designed to identify prices that appear stale, those that have changed significantly from prior valuations, and other anomalies that may indicate that a price may not be accurate. We also follow established routines for reviewing and reconfirming valuations with the pricing provider, if deemed appropriate. In addition, the pricing vendor has an established challenge process in place for all security valuations, which facilitates identification and resolution of potentially erroneous prices. Based on the information available, we believe that the fair values provided by the brokers are consistent with the principles of SFAS 157.

Private equity investments held in investment company affiliates are initially valued at cost. Valuations are reviewed at the end of each quarter utilizing available market data to determine whether or not any fair value adjustments are necessary. Such market data include any comparable public company trading multiples. Unobservable inputs include company-specific fundamentals and other third-party transactions in that security. Our valuation methodology for private equity investments is applied consistently, and these investments are generally included in Level 3.

Derivatives

We use closing prices for derivatives included in Level 1, which are traded either on exchanges or liquid over-the-counter markets.

The majority of our derivatives portfolio is valued using internal models. The models maximize the use of market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities. Derivative assets and liabilities included in Level 2 primarily represent interest rate swaps, cross-currency swaps and foreign currency and commodity forward and option contracts.

Derivative assets and liabilities included in Level 3 primarily represent interest rate products that contain embedded optionality or prepayment features.

Loans

When available, we use observable market data, including pricing on recent closed market transactions, to value loans which are included in Level 2. When this data is unobservable, we use valuation methodologies using current market interest rate data adjusted for inherent credit risk, and such loans are included in Level 3. When appropriate, loans are valued using collateral values as a practical expedient.

Effective January 1, 2008, we adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. Upon adoption, we elected to report $172 million of commercial mortgage loans at fair value in order to have them on the same accounting basis (measured at fair value through earnings) as the derivatives economically hedging these loans.

The following table presents our assets and liabilities measured at fair value on a recurring basis at December 31, 2008. Included in the table are investment securities of $21,967 million, primarily supporting obligations to annuitants and policyholders in our run-off insurance operations, and $8,190 million supporting obligations to holders of guaranteed investment contracts. Such securities are primarily investment grade. In addition, the table includes $12,642 million and $5,236 million of derivative assets and liabilities, respectively, with highly rated counterparties, primarily used for risk management purposes. Also included are retained interests in securitizations totaling $6,356 million.

(129)

December 31, 2008 (In millions)	Level 1	Level 2	Level 3	FIN 39 netting(a)	Net balance
Assets					
Investment securities	$ 1,158	$ 27,332	$ 12,956	$ –	$ 41,446
Derivatives(b)	–	18,911	1,142	(7,411)	12,642
Other(c)	1	288	1,105	–	1,394
Total	$ 1,159	$ 46,531	$ 15,203	$ (7,411)	$ 55,482
Liabilities					
Derivatives	$ 2	$ 12,643	$ 166	$ (7,575)	$ 5,236
Other(d)	–	1,031	–	–	1,031
Total	$ 2	$ 13,674	$ 166	$ (7,575)	$ 6,267

(a) FIN 39, Offsetting of Amounts Related to Certain Contracts, permits the netting of derivative receivables and derivative payables when a legally enforceable master netting agreement exists. Included fair value adjustments related to our own and counterparty credit risk.
(b) The fair value of derivatives included an adjustment for our non-performance risk. At December 31, 2008, the adjustment for our non-performance risk was a gain of $177 million.
(c) Included private equity investments and loans designated under the fair value option.
(d) Primarily represented the liability associated with certain of our deferred incentive compensation plans accounted for in accordance with EITF Issue 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested.

The following table presents the changes in Level 3 instruments measured on a recurring basis for the year ended December 31, 2008. The majority of our Level 3 balances consist of investment securities classified as available-for-sale with changes in fair value recorded in equity.

Changes in Level 3 instruments for the year ended December 31, 2008

(In millions)

	January 1, 2008	Net realized/ unrealized gains (losses) included in earnings(a)	Net realized/ unrealized gains (losses) included in accumulated nonowner changes other than earnings	Purchases, issuances and settlements	Transfers in and/or out of Level 3(b)	December 31, 2008	Net change in unrealized gains (losses) relating to instruments still held at December 31, 2008(c)
Investment securities	$ 12,447	$ 430	$ (1,586)	$ 671	$ 994	$ 12,956	$ 7
Derivatives(d)(e)	265	866	141	(256)	(13)	1,003	636

Other	1,330	(157)	(29)	(90)	51	1,105	(165)
Total	$ 14,042	$1,139	$ (1,474)	$ 325	$ 1,032	$ 15,064	$ 478

(a) Earnings effects are primarily included in the “GECS revenues from services” and “Interest and other financial charges” captions in the Statement of Earnings.
(b) Transfers in and out of Level 3 are considered to occur at the beginning of the period. Transfers into Level 3 were a result of increased use of non-binding broker quotes that could not be validated with other market observable data, resulting from continued deterioration in the credit markets.
(c) Represented the amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held at December 31, 2008.
(d) Earnings from Derivatives were partially offset by $760 million in losses from related derivatives included in Level 2 and $4 million in losses from underlying debt obligations in qualifying fair value hedges.
(e) Represented derivative assets net of derivative liabilities and included cash accruals of $27 million not reflected in the fair value hierarchy table.

Certain assets that are carried on our Statement of Financial Position at historical cost, require fair value charges to earnings when they are deemed to be impaired. As these impairment charges are non-recurring, they are not included in the preceding tables.

Included in this category are certain loans that have been reduced for the fair value of their underlying collateral when deemed impaired, and cost and equity method investments that are written down to fair value when their declines are determined to be other-than-temporary. At December 31, 2008, these amounts were $48 million identified as Level 2 and $3,145 million identified as Level 3. Of assets still held at December 31, 2008, we recognized $587 million, pre-tax, of losses related to non-recurring fair value measurements of loans, and $495 million, pre-tax, of other-than-temporary impairments of cost and equity method investments during 2008.

NOTE 29. FINANCIAL INSTRUMENTS

	2008			2007		
		Assets (liabilities)			Assets (liabilities)	
December 31 (In millions)	Notional amount	Carrying amount (net)	Estimated fair value	Notional amount	Carrying amount (net)	Estimated fair value
GE						
Assets						
Investments and notes receivable	$ (a)	$ 269	$ 269	$ (a)	$ 538	$ 538
Liabilities						
Borrowings(b)	(a)	(12,202)	(12,267)	(a)	(15,762)	(15,819)
GECS						
Assets						
Loans	(a)	305,376	292,797	(a)	309,623	307,425
Other commercial mortgages	(a)	1,501	1,427	(a)	4,891	4,939
Loans held for sale	(a)	3,640	3,670	(a)	3,808	3,809
Other financial instruments(c)	(a)	2,637	2,810	(a)	2,764	3,150
Liabilities						
Borrowings(b)(d)	(a)	(514,601)	(504,439)	(a)	(500,922)	(503,607)
Investment contract benefits	(a)	(4,212)	(4,536)	(a)	(4,536)	(4,914)
Guaranteed investment contracts	(a)	(10,828)	(10,677)	(a)	(11,705)	(11,630)
Insurance – credit life(e)	1,165	(44)	(31)	1,500	(35)	(24)

(a) These financial instruments do not have notional amounts.
(b) See Note 18.
(c) Principally cost method investments.
(d) Included effects of interest rate and cross-currency derivatives.
(e) Net of reinsurance of $3,103 million and $2,815 million at December 31, 2008 and 2007, respectively.

Assets and liabilities not carried at fair value in our Statement of Financial Position are discussed below. Consistent with SFAS 107, Disclosure about Fair Value of Financial Instruments, the disclosure excludes finance leases and non-financial assets and liabilities. Apart from certain of our borrowings and certain marketable securities, few of the

instruments discussed below are actively traded and their fair values must often be determined using financial models. Realization of the fair value of these instruments depends upon market forces beyond our control, including marketplace liquidity.

A description of how we estimate fair values follows. Estimates of fair value at December 31, 2008, were determined in accordance with SFAS 107, as amended by SFAS 157.

Loans

Based on quoted market prices, recent transactions and/or discounted future cash flows, using rates we would charge to similar borrowers with similar maturities.

Borrowings

Valuation methodologies using current market interest rate data which are comparable to market quotes adjusted for our non-performance risk.

Investment contract benefits

Based on expected future cash flows, discounted at currently offered rates for immediate annuity contracts or cash surrender values for single premium deferred annuities.

Guaranteed investment contracts

Based on valuation methodologies using current market interest rate data, adjusted for our non-performance risk.

All other instruments

Based on observable market transactions, valuation methodologies using current market interest rate data adjusted for inherent credit risk and/or quoted market prices.

Assets and liabilities that are reflected in the accompanying financial statements at fair value are not included in the above disclosures; such items include cash and equivalents, investment securities and derivative financial instruments.

Additional information about certain categories in the table above follows.

Insurance – credit life

Certain insurance affiliates, primarily in GE Money, issue credit life insurance designed to pay the balance due on a loan if the borrower dies before the loan is repaid. As part of our overall risk management process, we cede to third parties a portion of this associated risk, but are not relieved of our primary obligation to policyholders.

Loan commitments

	Notional amount	
December 31 (In millions)	2008	2007
Ordinary course of business lending commitments(a)(b)	$ 8,507	$ 11,731
Unused revolving credit lines(c)		
Commercial	25,011	24,554
Consumer – principally credit cards	252,867	477,285

(a) Excluded investment commitments of $3,501 million and $4,864 million as of December 31, 2008 and 2007, respectively.
(b) Included a $1,067 million secured commitment associated with an arrangement that can increase to a maximum of $4,943 million based on the asset volume under the arrangement.
(c) Excluded inventory financing arrangements, which may be withdrawn at our option, of $14,503 million and $14,654 million as of December 31, 2008 and 2007, respectively.

Derivatives and hedging

We conduct our business activities in diverse markets around the world, including countries where obtaining local funding is sometimes inefficient. The nature of our activities exposes us to changes in interest rates and currency

exchange rates. We manage such risks using various techniques including issuing debt whose terms correspond to terms of the funded assets, as well as combinations of debt and derivatives that achieve our objectives. We also are exposed to various commodity price risks and address certain of these risks with commodity contracts. By policy, we do not use derivatives for speculative purposes. We value derivatives that are not exchange-traded with internal market-based valuation models. When necessary, we also obtain information from our derivative counterparties to validate our models and to value the few products that our internal models do not address.

We use interest rate swaps, currency derivatives and commodity derivatives to reduce the variability of expected future cash flows associated with variable rate borrowings and commercial purchase and sale transactions, including commodities. We use interest rate swaps, currency swaps and interest rate and currency forwards to hedge the fair value effects of interest rate and currency exchange rate changes on local and non-functional currency denominated fixed-rate borrowings and certain types of fixed-rate assets. We use currency swaps and forwards to protect our net investments in global operations conducted in non-U.S. dollar currencies. We intend all of these positions to qualify as hedges and to be accounted for as hedges.

We use swaps, futures and option contracts, including caps, floors and collars, as economic hedges of changes in interest rates, currency exchange rates and equity prices on certain types of assets and liabilities. We sometimes use credit default swaps to economically hedge the credit risk of various counterparties with which we have entered into loan or leasing arrangements. We occasionally obtain equity warrants as part of sourcing or financing transactions. Although these instruments are derivatives, their economic risks are similar to, and managed on the same basis as, risks of other equity instruments we hold. These instruments are marked to market through earnings.

Earnings effects of derivatives designated as hedges

The following table provides information about the earnings effects of derivatives designated and qualifying as hedges.

Pre-tax gains (losses)

December 31 (In millions)	2008	2007	2006
Cash flow hedges			
Ineffectiveness	$ 8	$ (3)	$ 10
Amounts excluded from the measure of effectiveness	5	(17)	(16)
Fair value hedges			
Ineffectiveness	(600)	7	(47)
Amounts excluded from the measure of effectiveness	(26)	(13)	33

Ineffectiveness primarily related to changes in the present value of the initial credit spread over the benchmark interest rate associated with hedges of our fixed rate borrowings.

In 2008, 2007 and 2006, we recognized insignificant gains and losses related to hedged forecasted transactions and firm commitments that did not occur by the end of the originally specified period.

Guarantees of Derivatives

We do not sell credit default swaps; however, as a part of our risk management services, we provide performance guarantees to third-party financial institutions related to plain vanilla interest rate swaps on behalf of certain customers related to variable rate loans we have extended to them. The underwriting risk inherent in these arrangements is essentially similar to that of a fixed rate loan. Under these arrangements, the guarantee is secured, usually by the asset being purchased or financed, or by other assets of the guaranteed party. In addition, these agreements are underwritten to provide for collateral value that exceeds the combination of the loan amount and the initial expected future exposure of the derivative. These credit support arrangements mature on the same date as the related financing arrangements or transactions and are across a broad spectrum of diversified industries and companies. The fair value of our guarantee is $28 million at December 31, 2008. Because we are guaranteeing the performance of the customer under these arrangements, our exposure to loss at any point in time is limited to the fair value of the customer’s derivative contracts that are in a liability position. The aggregate termination value of such contracts at December 31, 2008, was $386 million before consideration of any offsetting effect of collateral. At December 31, 2008, collateral value was sufficient to cover the loan amount and the fair value of the customer’s derivative, in the event we had been called upon to perform under the guarantee. If we assumed that, on January 1, 2009, interest rates moved unfavorably by 100 basis points across the yield curve (a “parallel shift” in that curve), the effect on the fair value of such contracts, without considering any potential offset of the underlying collateral, would have been an increase of $161 million. Given our strict underwriting criteria, we believe the likelihood that we will be required to perform under the

guarantee is remote.

Additional information regarding our use of derivatives is provided in Note 18 and Note 23.

Counterparty credit risk

We manage counterparty credit risk, the risk that counterparties will default and not make payments to us according to the terms of the agreements, on an individual counterparty basis. Thus, when a legal right of offset exists, we net certain exposures by counterparty and include the value of collateral to determine the amount of ensuing exposure. When net exposure to a counterparty, based on the current market values of agreements and collateral, exceeds credit exposure limits (see following table), we take action to reduce exposure. Such actions include prohibiting additional transactions with the counterparty, requiring collateral from the counterparty (as described below) and terminating or restructuring transactions.

Swaps are required to be executed under master agreements containing mutual credit downgrade provisions that provide the ability to require assignment or termination in the event either party is downgraded below A3 or A–. In certain cases we have entered into collateral arrangements that provide us with the right to hold collateral (cash or U.S. Treasury or other highly-rated securities) when the current market value of derivative contracts exceeds a specified limit. We evaluate credit risk exposures and compliance with credit exposure limits net of such collateral.

Fair values of our derivatives can change significantly from period to period based on, among other factors, market movements and changes in our positions. At December 31, 2008, our exposure to counterparties, after consideration of netting arrangements and collateral, was about $1,800 million.

Following is GECS policy relating to initial credit rating requirements and to exposure limits to counterparties.

Counterparty Credit Criteria

	Credit rating	
	Moody's	S&P
Foreign exchange forwards and other derivatives less than one year	P-1	A-1
All derivatives between one and five years	Aa3(a)	AA-(a)
All derivatives greater than five years	Aaa(a)	AAA(a)

(a) Counterparties that have an obligation to provide collateral to cover credit exposure in accordance with a credit support agreement must have a minimum A3/A- rating.

Exposure Limits

(In millions)

Minimum rating		Exposure(a)	
Moody's	S&P	With collateral arrangements	Without collateral arrangements
Aaa	AAA	$100	$75
Aa3	AA–	50	50
A3	A–	5	–

(a) For derivatives with maturities less than one year, counterparties are permitted to have unsecured exposure up to $150 million with a minimum rating of A-1/P-1. Exposure to a counterparty is determined net of collateral.

NOTE 30. OFF-BALANCE SHEET ARRANGEMENTS

We securitize financial assets and arrange other forms of asset-backed financing in the ordinary course of business to improve shareowner returns. The securitization transactions we engage in are similar to those used by many financial institutions. Beyond improving returns, these securitization transactions serve as funding sources for a variety of diversified lending and securities transactions. Historically, we have used both GE-supported and third-party Variable Interest Entities (VIEs) to execute off-balance sheet securitization transactions funded in the commercial paper and term markets.

Investors in these entities only have recourse to the assets owned by the entity and not to our general credit, unless noted below. We did not provide non-contractual support to consolidated or unconsolidated VIEs in either 2008 or 2007. We do not have implicit support arrangements with any VIEs.

Variable Interest Entities

When evaluating whether we are the primary beneficiary of a VIE and must therefore consolidate the entity, we perform a qualitative analysis that considers the design of the VIE, the nature of our involvement and the variable interests held by other parties. If that evaluation is inconclusive as to which party absorbs a majority of the entity's expected losses or residual returns, a quantitative analysis is performed to determine who is the primary beneficiary. The largest single category of VIEs that we are involved with are Qualifying Special Purpose Entities (QSPEs), which meet specific characteristics defined in U.S. GAAP that exclude them from the scope of consolidation standards.

Consolidated Variable Interest Entities

Upon adoption of FIN 46 and FIN 46(R) on July 1, 2003 and January 1, 2004, respectively, we consolidated certain VIEs with $54.0 billion of assets and $52.6 billion of liabilities, which are further described below. At December 31, 2008, assets and liabilities of those VIEs, and additional VIEs consolidated as a result of subsequent acquisitions of financial companies, totaled $26,626 million and $21,256 million, respectively (at December 31, 2007, assets and liabilities were $32,382 million and $24,342 million, respectively).

The VIEs included in our consolidated financial statements include the following:

- Securitization entities that hold financing receivables and other financial assets. Since they were consolidated in 2003, these assets have continued to run off; totaled $4,000 million at December 31, 2008; and are included in Note 12 ($5,013 million in 2007). There has been no significant difference between the performance of these financing receivables and our on-book receivables on a blended basis. The liabilities of these securitization entities, which consist primarily of commercial paper, totaled $3,868 million at December 31, 2008, and are included in Note 18 ($4,834 million in 2007). Contractually the cash flows from these financing receivables must first be used to pay down outstanding commercial paper and interest thereon as well as other expenses of the entity. Excess cash flows are available to GE. The creditors of these entities have no claim on the other assets of GE.

If the short-term credit rating of GE Capital or these entities were reduced below A–1/P–1, we would be required to provide substitute liquidity for those entities or provide funds to retire the outstanding commercial paper. The maximum net amount that we would be required to provide in the event of such a downgrade is determined by contract, and totaled $3,753 million at December 31, 2008. As the borrowings of these entities are already reflected in our consolidated Statement of Financial Position, there would be no change in our debt if this were to occur.

- Trinity, a group of sponsored special purpose entities, which invests in a portfolio of mainly investment-grade investment securities using proceeds raised from guaranteed investment contracts (GICs) it issues to investors (principally municipalities). At December 31, 2008, these entities held $8,190 million of investment securities, included in Note 9, and $1,002 million of cash and other assets ($11,101 million and $517 million, respectively, at December 31, 2007). The associated guaranteed investment contract liabilities, included in Note 19, were $10,828 million and $11,705 million at the end of December 31, 2008 and 2007, respectively.

If the long-term credit rating of GE Capital were to fall below AA-/Aa3 or its short-term credit rating were to fall below A-1+/P-1, GE Capital would be required to provide approximately $3,493 million of capital to such entities as of December 31, 2008, pursuant to letters of credit issued by GE Capital. To the extent that the entities' liabilities exceed the ultimate value of the proceeds from the sale of their assets and the amount drawn under the letters of credit, GE Capital could be required to provide such excess amount. As of December 31, 2008, the value of these entities' liabilities was $10,749 million and the fair value of their assets was $9,191 million (which included unrealized losses on investment securities of $2,055 million). With respect to these investment securities, we intend to hold them at least until such time as their individual fair values exceed their amortized cost and we have the ability to hold all such

debt securities until maturity. As the borrowings of these entities are already reflected in our consolidated Statement of Financial Position, there would be no change in our debt if this were to occur.

- Penske Truck Leasing Co., L.P. (Penske), a rental truck leasing joint venture. The total consolidated assets and liabilities of Penske at December 31, 2008, were $7,444 million and $1,339 million, respectively, ($8,075 million and $1,482 million at December 31, 2007, respectively). Penske's main consolidated asset is property, plant and equipment leased to others, included in Note 14, which totaled $5,499 million at December 31, 2008, ($6,100 million at December 31, 2007). There are no recourse arrangements between GE and Penske.

The remaining assets and liabilities of VIEs that are included in our consolidated financial statements were acquired in transactions subsequent to adoption of FIN 46(R) on January 1, 2004. Assets of these entities consist of amortizing securitizations of financial assets originated by acquirees in Australia and Japan, and real estate partnerships. There are no recourse arrangements between GE and these entities.

Off-Balance Sheet Entities

The vast majority of our involvement with unconsolidated VIEs relates to our securitization activities and is detailed in the table below.

Our involvement with unconsolidated VIEs consists of the following activities: assisting in the formation and financing of an entity, providing recourse and/or liquidity support, servicing the assets and receiving variable fees for services provided. The classification in our financial statements of our variable interests in these entities depends on the nature of the entity. As described below, our retained interests in securitization-related VIEs and QSPEs is reported in financing receivables or investment securities depending on its legal form. Variable interests in partnerships and corporate entities would be classified as either equity method or cost method investments.

In the ordinary course of business, we make equity investments in entities in which we are not the primary beneficiary, but may hold a variable interest such as limited partner equity interests or mezzanine debt investment. These investments totaled $2,871 million at year-end 2008 and are classified in two captions in our financial statements. At December 31, 2008, “All other assets” included investments in entities accounted for under either the equity method or the cost method, which totaled $1,897 million ($1,089 million at December 31, 2007). In addition, at December 31, 2008, we held financing receivables, included in Note 12, totaling $974 million ($567 million at December 31, 2007) representing debt financing provided to these VIEs. Our maximum exposure to loss related to such entities at December 31, 2008, was $4,030 million ($2,559 million at December 31, 2007), and includes our investment in the unconsolidated VIEs and our contractual obligations to fund new investments by the entities. None of these investments is individually significant.

We transfer assets to QSPEs in the ordinary course of business as part of our ongoing securitization activities. In our securitization transactions, we transfer assets to a QSPE in exchange for cash, which is funded by beneficial interests issued by the QSPE to third parties and our retained interests in the assets transferred.

The financing receivables in our QSPEs have similar risks and characteristics to our on-book financing receivables and were underwritten to the same standard. Accordingly, the performance of these assets has been similar to our on-book financing receivables; however, the blended performance of the pools of receivables in our QSPEs reflects the eligibility screening requirements that we apply to determine which receivables are selected for sale. Therefore, the blended performance can differ from the on-book performance.

When we securitize financing receivables we retain interests in the transferred receivables in two forms: a seller’s interest in the assets of the QSPE, which we classify as financing receivables, and subordinated interests in the assets of the QSPE, which we classify as investment securities.

Other than those entities described above, we also hold passive investments in RMBS, CMBS and asset-backed securities issued by entities that may be either VIEs or QSPEs. Such investments were, by design, investment grade at issuance and held by a diverse group of investors. As we have no formal involvement in such entities beyond our investment, we believe that the likelihood is remote that we would be required to consolidate them. Further information about such investments is provided in Note 9.

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Financing receivables transferred to securitization entities that remain outstanding and our retained interests in those financing receivables at December 31, 2008 and 2007, follows.

December 31 (In millions)	Equipment(a)(b)	Commercial real estate(b)	Credit card receivables	Other assets(b)	Total assets
2008					
Asset amount outstanding	$ 13,298	$ 7,970	$ 26,046	$ 5,250	$ 52,564
Included within the amount above are retained interests of:					
Financing receivables(c)	339	–	3,802	–	4,141
Investment securities	747	222	4,806	532	6,307
2007					
Asset amount outstanding	$ 15,566	$ 9,244	$ 26,248	$ 5,067	$ 56,125
Included within the amount above are retained interests of:					
Financing receivables(c)	764	–	3,455	–	4,219
Investment securities	763	454	3,922	535	5,674

(a) Includes inventory floorplan receivables.

(b) In certain equipment and commercial real estate transactions entered into prior to December 31, 2004, we provided contractual credit and liquidity support to third parties who purchased debt in the QSPEs. We have not entered into additional arrangements since that date. At December 31, 2008 and 2007, liquidity support amounted to $2,143 million and $2,810 million, respectively. Credit support amounted to $2,164 million and $2,804 million at December 31, 2008 and 2007, respectively. Liabilities with recourse obligations related to off-balance sheet assets were $8 million and $3 million at December 31, 2008 and 2007, respectively. The maximum exposure to loss under these obligations was $124 million and $99 million at December 31, 2008 and 2007, respectively.

(c) Uncertificated sellers interests.

We have not provided non-contractual support to any QSPEs in 2008 or 2007. We do not have any implicit support arrangements with QSPEs.

Retained Interests in Securitization Transactions

When we transfer financing receivables, we determine the fair value of retained interests received as part of the securitization transaction in accordance with SFAS 157. Further information about how fair value is determined is presented in Note 28. Retained interests in securitized receivables that are classified as investment securities are reported at fair value in each reporting period. These assets decrease as cash is received on the underlying financing receivables. Retained interests classified as financing receivables are accounted for the same as our on-book financing receivables.

Key assumptions used in measuring the fair value of retained interests classified as investment securities and the sensitivity of the current fair value to changes in those assumptions related to all outstanding retained interests at December 31, 2008 and 2007 were:

(In millions)	Equipment	Commercial real estate	Credit card receivables	Other assets
2008				
Discount rate(a)	17.6%	25.8%	15.1%	13.4%
Effect of				
10% adverse change	$ (15)	$ (14)	$ (53)	$ (1)
20% adverse change	(30)	(26)	(105)	(3)
Prepayment rate(a)(b)	19.5%	11.3%	9.6%	52.0%
Effect of				
10% adverse change	$ (2)	$ (3)	$ (60)	$ –
20% adverse change	(5)	(7)	(118)	(1)
Estimate of credit losses(a)	0.7%	1.3%	16.2%	–%
Effect of				
10% adverse change	$ (5)	$ (2)	$ (223)	$ –
20% adverse change	(10)	(4)	(440)	–
Remaining weighted average asset lives (in months)	14	55	10	4
Net credit losses	$ 91	$ 1	$ 1,815	$ 5
Delinquencies	139	56	1,833	80
2007				
Discount rate(a)	13.7%	15.2%	14.8%	14.9%
Effect of				
10% adverse change	$ (11)	$ (20)	$ (36)	$ (3)
20% adverse change	(22)	(38)	(72)	(6)
Prepayment rate(a)(b)	16.4%	3.4%	10.8%	35.1%
Effect of				
10% adverse change	$ (7)	$ (5)	$ (80)	$ (2)
20% adverse change	(12)	(9)	(148)	(4)

Estimate of credit losses(a)	1.2%	1.0%	9.0%	0.1%
Effect of				
10% adverse change	$ (5)	$ (8)	$ (110)	$ (1)
20% adverse change	(9)	(13)	(222)	(1)
Remaining weighted average lives (in months)	16	53	8	24
Net credit losses	$ 55	$ 1	$ 941	$ –
Delinquencies	53	12	1,514	27

(a) Based on weighted averages.
(b) Represented a payment rate on credit card receivables, inventory financing receivables (included within equipment) and trade receivables (included within other assets).

Activity related to retained interests classified as investment securities in our consolidated financial statements follows.

(In millions)	2008	2007	2006
Cash flows on transfers			
Proceeds from new transfers	$ 6,655	$ 22,767	$ 19,288
Proceeds from collections reinvested in revolving period transfers	70,144	61,625	46,944
Cash flows on retained interests recorded as investment securities	5,935	4,265	2,964
Effect on GECS revenues from services			
Net gain on sale	$ 1,133	$ 1,805	$ 1,187
Change in fair value on SFAS 155 retained interests	(113)	(102)	–
Other-than-temporary impairments	(330)	(114)	(37)

Derivative activities

The QSPEs use derivatives to manage interest rate risk between the assets and liabilities. At inception of the transaction, the QSPE will enter into derivative contracts to receive a floating rate of interest and pay a fixed rate with terms that effectively match those of the financial assets held. In some cases, we are the counterparty to such derivative contracts, in which case a second derivative is executed with a third party to substantially eliminate the exposure created by the first derivative. At December 31, 2008, the fair value of such derivative contracts was $752 million ($134 million at December 31, 2007). We have no other derivatives arrangements with QSPEs or other VIEs.

Servicing activities

As part of a securitization transaction, we may provide servicing in exchange for a market-based fee that is determined on principal balances. Where the fee does not represent market-based compensation for these services, a servicing asset or liability is recorded, as appropriate. The fair value of the servicing asset or liability is subject to credit, prepayment and interest rate risk. Servicing assets and liabilities are amortized to earnings in proportion to and over the period of servicing activity. The amount of our servicing assets and liabilities was insignificant at December 31, 2008 and 2007. We received servicing fees from QSPEs of $641 million, $566 million and $381 million in 2008, 2007 and 2006, respectively.

When we provide servicing as an “Aaa” rated provider we are contractually permitted to commingle cash collected from customers on financing receivables sold to investors with our own cash prior to payment to a QSPE. At December 31, 2008, the balance owed to QSPEs from such collections and included in cash and equivalents was $4,446 million ($5,121 million at December 31, 2007). Balances owed by QSPE to GE at December 31, 2008, and included in other GECS receivables, were $2,346 million, principally for receivable purchases ($3,507 million at December 31, 2007).

NOTE 31. COMMITMENTS AND GUARANTEES

Commitments, including guarantees

In our Aviation business of Technology Infrastructure, we had committed to provide financial assistance on $1,291 million of future customer acquisitions of aircraft equipped with our engines, including commitments made to airlines in 2008 for future sales under our GE90 and GEnx engine campaigns. The GECAS business of Capital Finance had placed multiple-year orders for various Boeing, Airbus and other aircraft with list prices approximating $17,248 million and secondary orders with airlines for used aircraft of approximately $1,653 million at December 31, 2008.

At December 31, 2008, NBC Universal had $8,102 million of commitments to acquire film and television programming, including U.S. television rights to future Olympic Games and National Football League games, contractual commitments under various creative talent arrangements and various other arrangements requiring payments through 2014.

At December 31, 2008, we were committed under the following guarantee arrangements beyond those provided on behalf of securitization entities. See Note 30.

- Credit Support. We have provided $9,151 million of credit support on behalf of certain customers or associated companies, predominantly joint ventures and partnerships, using arrangements such as standby letters of credit and performance guarantees. These arrangements enable these customers and associated companies to execute transactions or obtain desired financing arrangements with third parties. Should the customer or associated company fail to perform under the terms of the transaction or financing arrangement, we would be required to perform on their behalf. Under most such arrangements, our guarantee is secured, usually by the asset being purchased or financed, but possibly by certain other assets of the customer or associated company. The length of these credit support arrangements parallels the length of the related financing arrangements or transactions. The liability for such credit support was $72 million for December 31, 2008.

- Indemnification Agreements. These are agreements that require us to fund up to $693 million under residual value guarantees on a variety of leased equipment. Under most of our residual value guarantees, our commitment is secured by the leased asset at termination of the lease. The liability for these indemnification agreements was $332 million at December 31, 2008. We had $1,742 million of other indemnification commitments arising primarily from sales of businesses or assets.

- Contingent Consideration. These are agreements to provide additional consideration in a business combination to the seller if contractually specified conditions related to the acquired entity are achieved. At December 31, 2008, we had total maximum exposure for future estimated payments of $118 million, of which none was earned and payable.

Our guarantees are provided in the ordinary course of business. We underwrite these guarantees considering economic, liquidity and credit risk of the counterparty. We believe that the likelihood is remote that any such arrangements could have a significant adverse effect on our financial position, results of operations or liquidity. We record liabilities for guarantees at estimated fair value, generally the amount of the premium received, or if we do not receive a premium, the amount based on appraisal, observed market values or discounted cash flows. Any associated expected recoveries from third parties are recorded as other receivables, not netted against the liabilities.

At December 31, 2008 and 2007, the likelihood that we will be called upon to perform on these guarantees is remote.

Product Warranties

We provide for estimated product warranty expenses when we sell the related products. Because warranty estimates are forecasts that are based on the best available information – mostly historical claims experience – claims costs may differ from amounts provided. An analysis of changes in the liability for product warranties follows.

(In millions)	2008	2007	2006
Balance at January 1	$ 1,541	$ 1,339	$ 1,240
Current-year provisions	1,038	827	829
Expenditures(a)	(917)	(763)	(729)
Other changes	13	138	(1)
Balance at December 31	$ 1,675	$ 1,541	$ 1,339

(a) Primarily related to Technology Infrastructure and Energy Infrastructure.

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NOTE 32. QUARTERLY INFORMATION (UNAUDITED)

(In millions; per-share amounts in dollars)	First quarter		Second quarter		Third quarter		Fourth quarter	
	2008	2007	2008	2007	2008	2007	2008	2007
Consolidated operations								
Earnings from continuing operations	$ 4,351	$ 4,911	$ 5,394	$ 5,608	$ 4,477	$ 5,111	$ 3,867	$ 6,827
Earnings (loss) from discontinued operations	(47)	(340)	(322)	(226)	(165)	448	(145)	(131)
Net earnings	$ 4,304	$ 4,571	$ 5,072	$ 5,382	$ 4,312	$ 5,559	$ 3,722	$ 6,696
Preferred stock dividends declared	–	–	–	–	–	–	(75)	–
Net earnings attributable to common shareowners	$ 4,304	$ 4,571	$ 5,072	$ 5,382	$ 4,312	$ 5,559	$ 3,647	$ 6,696
Per-share amounts – earnings from continuing operations								
Diluted earnings per share	$ 0.43	$ 0.48	$ 0.54	$ 0.54	$ 0.45	$ 0.50	$ 0.36	$ 0.68
Basic earnings per share	0.44	0.48	0.54	0.55	0.45	0.50	0.36	0.68
Per-share amounts – earnings (loss) from discontinued operations								
Diluted earnings per share	–	(0.03)	(0.03)	(0.02)	(0.02)	0.04	(0.01)	(0.01)
Basic earnings per share	–	(0.03)	(0.03)	(0.02)	(0.02)	0.04	(0.01)	(0.01)
Per-share amounts – net earnings								
Diluted earnings per share	0.43	0.44	0.51	0.52	0.43	0.54	0.35	0.66
Basic earnings per share	0.43	0.44	0.51	0.52	0.43	0.55	0.35	0.67
Selected data								
GE								
Sales of goods and services	$ 24,186	$ 21,688	$ 27,846	$ 24,269	$ 28,868	$ 24,690	$ 31,114	$ 29,149
Gross profit from sales	6,280	5,660	7,302	6,537	6,930	6,357	8,229	7,757
GECS								
Total revenues	18,038	17,409	19,032	17,170	18,431	18,066	15,786	19,291
Earnings from continuing operations	2,456	3,407	2,774	2,416	2,010	3,219	534	3,375

For GE, gross profit from sales is sales of goods and services less costs of goods and services sold.

Earnings-per-share amounts are computed independently each quarter for earnings from continuing operations, earnings (loss) from discontinued operations and net earnings. As a result, the sum of each quarter's per-share amount may not equal the total per-share amount for the respective year; and the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amounts for net earnings for the respective

quarters.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures and internal control over financial reporting and concluded that (i) our disclosure controls and procedures were effective as of December 31, 2008, and (ii) no change in internal control over financial reporting occurred during the quarter ended December 31, 2008, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

Management’s annual report on internal control over financial reporting and the report of our independent registered public accounting firm appears in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Item 9B. Other Information.

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Executive Officers of the Registrant (As of February 1, 2009)

Name	Position	Age	Date assumed Executive Officer Position
Jeffrey R. Immelt	Chairman of the Board and Chief Executive Officer	52	January 1997
Kathryn A. Cassidy	Senior Vice President and GE Treasurer	54	March 2003
Pamela Daley	Senior Vice President, Corporate Business Development	56	July 2004
Brackett B. Denniston III	Senior Vice President and General Counsel	61	February 2004
John Krenicki, Jr.	Vice Chairman of General Electric Company; President & CEO, GE Energy Infrastructure	46	July 2008
John F. Lynch	Senior Vice President, Human Resources	56	January 2007
Jamie S. Miller	Vice President, Controller and Chief Accounting Officer	40	April 2008
Michael A. Neal	Vice Chairman of General Electric Company; Chairman, GE Capital Services, Inc.	55	September 2002
John G. Rice	Vice Chairman of General Electric Company; President & CEO, GE Technology Infrastructure	52	September 1997
Keith S. Sherin	Vice Chairman of General Electric Company and Chief Financial Officer	50	January 1999

All Executive Officers are elected by the Board of Directors for an initial term which continues until the Board meeting immediately preceding the next annual statutory meeting of shareowners, and thereafter are elected for one-year terms or until their successors have been elected. All Executive Officers have been executives of General Electric Company for the last five years except for Ms. Miller. Prior to joining GE in April 2008, Ms. Miller served as the Senior Vice President, Chief Accounting Officer and Controller of Wellpoint, Inc. Prior to joining Wellpoint in August 2007, Ms. Miller served as a partner with PricewaterhouseCoopers LLP. From May 2004 to August 2005, she was Vice President, Corporate Controller and Chief Accounting Officer at Genworth Financial (formerly GE Financial Assurance) having joined in 2003 as Controller.

The remaining information called for by this item is incorporated by reference to “Election of Directors,” “Corporate Governance,” “Board of Directors and Committees” and “Additional Information – Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement for our 2009 Annual Meeting of Shareowners to be held April 22, 2009, which will be filed within 120 days of the end of our fiscal year ended December 31, 2008 (the 2009 Proxy Statement).

Item 11. Executive Compensation.

Incorporated by reference to “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” “Pension Benefits,” “Nonqualified Deferred Compensation,” “Potential Payments Upon Termination” and “Non-management Directors’ Compensation” in the 2009 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

Incorporated by reference to “Information on Stock Ownership” in the 2009 Proxy Statement.

The remaining information called for by this item relating to “Securities Authorized for Issuance under Equity Compensation Plans” is provided in Note 24 to the consolidated financial statements in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K Report.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Incorporated by reference to “Related Person Transactions” and “Corporate Governance” in the 2009 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to “Independent Auditor” in the 2009 Proxy Statement.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

(a)1. Financial Statements

Included in Part II of this report:

Statement of Earnings for the years ended December 31, 2008, 2007 and 2006
Consolidated Statement of Changes in Shareowners’ Equity for the years ended December 31, 2008, 2007 and 2006
Statement of Financial Position at December 31, 2008 and 2007
Statement of Cash Flows for the years ended December 31, 2008, 2007 and 2006
Management’s Annual Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Other financial information:
Summary of Operating Segments
Notes to consolidated financial statements
Operating segment information
Geographic segment information
Operations by quarter (unaudited)

(a)2. Financial Statement Schedules

The schedules listed in Reg. 210.5-04 have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(a)3. Exhibit Index

3(a)	The Certificate of Incorporation, as amended, of General Electric Company (Incorporated by reference to Exhibit 3(a) of General Electric's Current Report on Form 8-K dated October 20, 2008 (Commission file number 001-00035)).
3(ii)	The By-Laws, as amended, of General Electric Company (Incorporated by reference to Exhibit 3(ii) of General Electric's Current Report on Form 8-K dated February 11, 2009 (Commission file number 001-00035)).

4(a)	Amended and Restated General Electric Capital Corporation (GECC) Standard Global Multiple Series Indenture Provisions dated as of February 27, 1997 (Incorporated by reference to Exhibit 4(a) to GECC's Registration Statement on Form S-3, File No. 333-59707 (Commission file number 1-6461)).
4(b)	Third Amended and Restated Indenture dated as of February 27, 1997, between GECC and The Bank of New York, as successor trustee (Incorporated by reference to Exhibit 4(c) to GECC's Registration Statement on Form S-3, File No. 333-59707 (Commission file number 1-6461)).
4(c)	First Supplemental Indenture dated as of May 3, 1999, supplemental to Third Amended and Restated Indenture dated as of February 27, 1997 (Incorporated by reference to Exhibit 4(dd) to GECC's Post-Effective Amendment No. 1 to Registration Statement on Form S-3, File No. 333-76479 (Commission file number 1-6461)).
4(d)	Second Supplemental Indenture dated as of July 2, 2001, supplemental to Third Amended and Restated Indenture dated as of February 27, 1997 (Incorporated by reference to Exhibit 4 (f) to GECC's Post-Effective Amendment No.1 to Registration Statement on Form S-3, File No. 333-40880 (Commission file number 1-6461)).
4(e)	Third Supplemental Indenture dated as of November 22, 2002, supplemental to Third Amended and Restated Indenture dated as of February 27, 1997 (Incorporated by reference to Exhibit 4(cc) to GECC's Post-Effective Amendment No. 1 to the Registration Statement on Form S-3, File No. 333-100527 (Commission file number 1-6461)).
4(f)	Fourth Supplemental Indenture dated as of August 24, 2007, supplemental to Third Amended and Restated Indenture dated as of February 27, 1997 (Incorporated by reference to Exhibit 4(g) to GECC's Registration Statement on Form S-3, File number 333-156929 (Commission file number 1-6461)).
4(g)	Fourth Supplemental Indenture dated as of December 2, 2008, supplemental to Third Amended and Restated Indenture dated as of February 27, 1997 (Incorporated by reference to Exhibit 4(h) to GECC's Registration Statement on Form S-3, File number 333-156929 (Commission file number 1-6461)).
4(h)	Senior Note Indenture dated as of January 1, 2003, between General Electric and The Bank of New York, as trustee for the senior debt securities (Incorporated by reference to Exhibit 4(a) to General Electric's Current Report on Form 8-K filed on January 29, 2003

	(Commission file number 001-00035)).
4(i)	Form of Global Medium-Term Note, Series A, Fixed Rate Registered Note (Incorporated by reference to Exhibit 4(r) to GECC's Registration Statement on Form S-3, File No. 333-156929 (Commission file number 1-6461)).
4(j)	Form of Global Medium-Term Note, Series A, Floating Rate Registered Note (Incorporated by reference to Exhibit 4(s) to the GECC's Registration Statement on Form S-3, File No. 333-156929 (Commission file number 1-6461)).
4(k)	Form of LIBOR Floating Rate Note (Incorporated by reference to Exhibit 4 of General Electric's Current Report on Form 8-K dated October 29, 2003 (Commission file number 001-00035)).
4(l)	Eighth Amended and Restated Fiscal and Paying Agency Agreement among GECC, GE Capital Australia Funding Pty Ltd., GE Capital European Funding, GE Capital Canada Funding Company, GE Capital UK Funding and The Bank of New York, as fiscal and paying agent, dated as of May 12, 2006 (Incorporated by reference to Exhibit 4(q) to GECC's Registration Statement on Form S-3, File No. 333-156929 (Commission file number 1-6461)).
4(m)	Indenture dated December 1, 2005, between General Electric and The Bank of New York, as successor trustee (Incorporated by reference to Exhibit 4(a) of General Electric's Current Report on Form 8-K filed on December 9, 2005 (Commission file number 001-00035)).

4(n)	Form of 5.250% Note due 2017 (Incorporated by referenced to Exhibit 4(b) of General Electric's Current Report on Form 8-K filed on December 5, 2007 (Commission file number 001-00035)).
4(o)	Letter from the Senior Vice President and Chief Financial Officer of General Electric to GECC dated September 15, 2006, with respect to returning dividends, distributions or other payments to GECC in certain circumstances described in the Indenture for Subordinated Debentures dated September 1, 2006, between GECC and the Bank of New York, as successor trustee (Incorporated by reference to Exhibit 4(c) to GECC's Post-Effective Amendment No. 2 to Registration Statement on Form S-3, File No. 333-132807).
4(p)	Form of Warrants issued on October 16, 2008 (Incorporated by reference to Exhibit 3(a) of General Electric's Current Report on Form 8-K dated October 20, 2008 (Commission file number 001-00035)).
4(q)	Agreement to furnish to the Securities and Exchange Commission upon request a copy of instruments defining the rights of holders of certain long-term debt of the registrant and consolidated subsidiaries.*
(10)	All of the following exhibits consist of Executive Compensation Plans or Arrangements:
	(a) General Electric Incentive Compensation Plan, as amended effective July 1, 1991 (Incorporated by reference to Exhibit 10(a) to General Electric Annual Report on Form 10-K (Commission file number 001-00035) for the fiscal year ended December 31, 1991).
	(b) General Electric Financial Planning Program, as amended through September 1993 (Incorporated by reference to Exhibit 10(h) to General Electric Annual Report on Form 10-K (Commission file number 001-00035) for the fiscal year ended December 31, 1993).
	(c) General Electric Supplemental Life Insurance Program, as amended February 8, 1991 (Incorporated by reference to Exhibit 10(i) to General Electric Annual Report on Form 10-K (Commission file number 001-00035) for the fiscal year ended December 31, 1990).
	(d) General Electric Directors' Charitable Gift Plan, as amended through December 2002 (Incorporated by reference to Exhibit 10(i) to General Electric Annual Report on Form 10-K (Commission file number 001-00035) for the fiscal year ended December 31,

	2002).
(e)	General Electric Leadership Life Insurance Program, effective January 1, 1994 (Incorporated by reference to Exhibit 10(r) to General Electric Annual Report on Form 10-K (Commission file number 001-00035) for the fiscal year ended December 31, 1993).
(f)	General Electric 1996 Stock Option Plan for Non-Employee Directors (Incorporated by reference to Exhibit A to the General Electric Proxy Statement for its Annual Meeting of Shareowners held on April 24, 1996 (Commission file number 001-00035)).
(g)	General Electric Supplementary Pension Plan, as amended effective January 1, 2009.*
(h)	General Electric 2003 Non-Employee Director Compensation Plan, Amended and Restated as of January 1, 2009.*
(i)	Amendment to Nonqualified Deferred Compensation Plans, dated as of December 14, 2004 (Incorporated by reference to Exhibit 10(w) to the General Electric Annual Report on Form 10-K (Commission file number 001-00035) for the fiscal year ended December 31, 2004).
(j)	GE Retirement for the Good of the Company Program, as amended effective January 1, 2009.*

	(k)	GE Excess Benefits Plan, effective January 1, 2009.*
	(l)	General Electric 2006 Executive Deferred Salary Plan, as amended January 1, 2009.*
	(m)	General Electric Company 2007 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 of General Electric's Current Report on Form 8-K dated April 27, 2007 (Commission file number 001-00035)).
	(n)	Form of Agreement for Stock Option Grants to Executive Officers under the General Electric Company 2007 Long-term Incentive Plan, as amended January 1, 2009.*
	(o)	Form of Agreement for Annual Restricted Stock Unit Grants to Executive Officers under the General Electric Company 2007 Long-term Incentive Plan, as amended January 1, 2009.*
	(p)	Form of Agreement for Periodic Restricted Stock Unit Grants to Executive Officers under the General Electric Company 2007 Long-term Incentive Plan (Incorporated by reference to Exhibit 10.4 of General Electric's Current Report on Form 8-K dated April 27, 2007 (Commission file number 001-00035)).
	(q)	Form of Agreement for Long Term Performance Award Grants to Executive Officers under the General Electric Company 2007 Long-term Incentive Plan (Incorporated by reference to Exhibit 10.5 of General Electric's Current Report on Form 8-K dated April 27, 2007 (Commission file number 001-00035)).
	(r)	Form of Agreement for Performance Stock Unit Grants to Executive Officers under the General Electric Company 2007 Long-term Incentive Plan (Incorporated by reference to Exhibit 10.6 of General Electric's Current Report on Form 8-K dated April 27, 2007 (Commission file number 001-00035)).
	(s)	Separation Agreement and Release dated January 28, 2008, between General Electric and David Nissen.*
(11)	Statement re Computation of Per Share Earnings.**	
12(a)	Computation of Ratio of Earnings to Fixed Charges.*	
12(b)		

	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.*
(21)	Subsidiaries of Registrant.*
(23)	Consent of Independent Registered Public Accounting Firm.*
(24)	Power of Attorney.*
31(a)	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended. *
31(b)	Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.*
(32)	Certification Pursuant to 18 U.S.C. Section 1350.*

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99(a)	Income Maintenance Agreement, dated March 28, 1991, between the Registrant and General Electric Capital Corporation (Incorporated by reference to Exhibit 99(h) to General Electric Capital Corporation's Registration Statement on Form S-3 (File No. 333-100527)).
99(b)	Eligible Entity Designation Agreement among the Federal Deposit Insurance Corporation, General Electric Capital Corporation and General Electric Company.*
99(c)	Stock Purchase Agreement, dated October 10, 2008, between General Electric Company and Berkshire Hathaway Inc. (Incorporated by reference to Exhibit 3(a) of General Electric's Current Report on Form 8-K dated October 20, 2008 (Commission file number 001-00035)).
99(d)	Form of letter agreement between General Electric Company and each of Jeffrey R. Immelt and Keith S. Sherin (Incorporated by reference to Exhibit 3(a) of General Electric's Current Report on Form 8-K dated October 20, 2008 (Commission file number 001-00035)).
99(e)	Undertaking for Inclusion in Registration Statements on Form S-8 of General Electric Company (Incorporated by reference to Exhibit 99(b) to General Electric Annual Report on Form 10-K (Commission file number 001-00035) for the fiscal year ended December 31, 1992).

*	Filed electronically herewith.
**	Information required to be presented in Exhibit 11 is provided in Note 8 to the consolidated financial statements in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K Report in accordance with the provisions of FASB Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report on Form 10-K for the fiscal year ended December 31, 2008, to be signed on its behalf by the undersigned, and in the capacities indicated, thereunto duly authorized in the Town of Fairfield and State of Connecticut on the 18th day of February 2009.

General Electric Company
(Registrant)

By /s/ Keith S. Sherin
Keith S. Sherin
Vice Chairman and Chief Financial Officer
(Principal Financial Officer)

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signer	Title	Date
/s/ Keith S. Sherin Keith S. Sherin Vice Chairman and Chief Financial Officer	Principal Financial Officer	February 18, 2009
/s/ Jamie S. Miller Jamie S. Miller Vice President and Controller	Principal Accounting Officer	February 18, 2009
Jeffrey R. Immelt*	Chairman of the Board of Directors (Principal Executive Officer)	
James I. Cash, Jr.*	Director	
William M. Castell*	Director	
Ann M. Fudge*	Director	
Claudio X. Gonzalez*	Director	
Susan Hockfield*	Director	
Andrea Jung*	Director	
Alan G. Lafley*	Director	
Robert W. Lane*	Director	
Ralph S. Larsen*	Director	
Rochelle B. Lazarus*	Director	
James J. Mulva*	Director	
Sam Nunn*	Director	
Roger S. Penske*	Director	
Robert J. Swieringa*	Director	
Douglas A. Warner III*	Director	
A majority of the Board of Directors		

*By /s/ Michael R. McAlevey
Michael R. McAlevey
Attorney-in-fact
February 18, 2009

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