

GENERAL DYNAMICS CORP
Form 10-K
February 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 1-3671

GENERAL DYNAMICS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	13-1673581
State or other jurisdiction of incorporation or organization	IRS Employer Identification No.

2941 Fairview Park Drive, Suite 100	22042-4513
Falls Church, Virginia	
Address of principal executive offices	Zip code

Registrant's telephone number, including area code:
(703) 876-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common stock, par value \$1 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K

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 Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant was \$25,984,413,270 as of June 30, 2013 (based on the closing price of the shares on the New York Stock Exchange).

342,250,398 shares of the registrant's common stock, \$1 par value per share, were outstanding on January 26, 2014.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III incorporates by reference information from certain portions of the registrant's definitive proxy statement for the 2014 annual meeting of shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year.

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PART I

ITEM 1. BUSINESS

BUSINESS OVERVIEW

General Dynamics is an aerospace and defense company that offers a broad portfolio of products and services in business aviation; combat vehicles, weapons systems and munitions; shipbuilding; and communication and information technology systems and solutions. Our management team delivers shareholder returns through disciplined execution of backlog, efficient cash-flow conversion and prudent capital deployment. We manage costs, undertake continuous-improvement initiatives and collaborate across our businesses to achieve our goals of maximizing earnings and cash and returning value to our shareholders.

Incorporated in Delaware in 1952, General Dynamics grew organically and through acquisitions until the early 1990s when we sold nearly all of our divisions except Electric Boat and Land Systems. Starting in the mid-1990s, we began expanding by acquiring combat vehicle-related businesses, additional shipyards, information technology product and service companies and Gulfstream Aerospace Corporation. Since 1995, we have acquired and integrated more than 65 businesses to strengthen and complement our business portfolio.

We operate globally through four business groups: Aerospace, Combat Systems, Marine Systems and Information Systems and Technology. For selected financial information regarding each of our business groups, see Note Q to the Consolidated Financial Statements in Item 8.

AEROSPACE

Our Aerospace group designs, manufactures and outfits a comprehensive family of Gulfstream business-jet aircraft, provides aircraft services (including maintenance and repair work, fixed-based operations (FBO) and aircraft management services) and performs aircraft completions for aircraft produced by other original equipment manufacturers (OEMs). With more than 50 years of experience at the forefront of the business-jet market, the Aerospace group is known for:

- superior aircraft design, quality, performance, safety and reliability;
- technologically advanced cockpit and cabin systems; and
- industry-leading product service and support.

The Gulfstream product line includes aircraft across a spectrum of price and performance options in the large- and mid-cabin business-jet market. The varying ranges, speeds and cabin dimensions are well-suited to the needs of a diverse and global customer base. The large-cabin models are manufactured at Gulfstream's headquarters in Savannah, Georgia, while the mid-cabin models are constructed by an international partner. All models are outfitted in the group's U.S. facilities.

The two newest aircraft in the Gulfstream family, the ultra-large-cabin, ultra-high-speed G650 and the super-mid-size G280, have exceeded original performance expectations since their entry into service in 2012. The G650 has the longest range, fastest speed, largest cabin and most advanced cockpit in the Gulfstream fleet and defines a completely new segment at the top of the business-jet market. The National Aeronautic Association recognized the G650 for setting a new record for the fastest west-bound around-the-world flight in the civilian non-supersonic class of aircraft. The G650 has also set more than 35 city-pair speed records. The G280 offers the longest range at the fastest speed in its class and has set more than 30 city-pair speed records.

Demand for Gulfstream aircraft remains strong across geographic regions and customer types with orders from public and private companies as well as individuals. Additionally, Gulfstream remains a leading provider of aircraft for governments and militaries around the world, with aircraft operated by approximately 40 nations. These government aircraft are used for head-of-state and executive transportation and a variety of special-mission applications, including aerial reconnaissance, maritime surveillance and weather research.

We are committed to returns-based investment in research and development (R&D) activities that enable the introduction of new products and first-to-market enhancements that broaden customer choice, improve aircraft performance and set new standards for customer safety, comfort and in-flight productivity. Gulfstream's aircraft are designed to minimize lifecycle costs while maximizing the commonality of parts among the various models. Current product-enhancement and development efforts include initiatives in advanced avionics, composites, biofuels, flight-control systems, acoustics, cabin technologies and enhanced vision systems. Recent innovations include a state-of-the-art cabin management system designed for the G650, and now available on other Gulfstream aircraft. This system gives passengers control of the aircraft cabin systems through a handheld device synched to a particular seat on the aircraft. Each passenger can easily control his own environment, including lighting, temperature and entertainment equipment. We also offer several service and support applications including the PlaneBook application, which provides pilots easy and immediate digital access to critical flight information and aircraft-specific documents. A multi-year facilities project at our Savannah campus is scheduled to continue through 2017. This expansion includes constructing new facilities and renovating existing infrastructure. This effort follows a multi-year project that established a purpose-built G650 manufacturing facility, increased aircraft-service capacity, improved the group's customer sales and design center and created a state-of-the-art paint facility.

Gulfstream offers an extensive company-owned product support organization with service professionals located around the globe. The service network for Gulfstream aircraft continues to evolve to address the demands of the growing international customer base. We operate 10 company-owned service centers, maintain 14 authorized warranty centers and maintenance facilities on six continents, and offer on-call Gulfstream aircraft technicians ready to deploy for urgent customer-service requirements in the Americas. This commitment to superior product support continues to receive industry recognition, including the number-one ranking for the 11th consecutive year in the annual Aviation International News Product Support Survey, as well as the top ranking in the annual Professional Pilot Survey. Jet Aviation augments our Aerospace portfolio by providing custom, complex completions of single- and double-aisle aircraft that require advanced engineering, design and manufacturing capabilities. Jet Aviation also provides completions for business-jet customers. In addition, Jet Aviation provides superior maintenance, repair, aircraft management and FBO services to a broad global customer base. We operate more than 25 facilities worldwide and continue to enhance our service network and capabilities.

A market leader in the business-aviation industry, the Aerospace group remains focused on developing innovative first-to-market technologies and products; providing exemplary and timely service to customers globally; and driving efficiencies and reducing costs in the aircraft production, outfitting and service processes.

Revenues for the Aerospace group were 19 percent of our consolidated revenues in 2011, 22 percent in 2012 and 26 percent in 2013. Revenues by major products and services were as follows:

Year Ended December 31	2011	2012	2013
Aircraft manufacturing, outfitting and completions	\$4,400	\$5,317	\$6,378
Aircraft services	1,521	1,491	1,530
Pre-owned aircraft	77	104	210
Total Aerospace	\$5,998	\$6,912	\$8,118

COMBAT SYSTEMS

Our Combat Systems group is a global leader in systems engineering, spanning design, development, manufacture and support of tracked and wheeled military vehicles, weapons systems and munitions for the United States and its allies.

The group's product lines include:

- wheeled combat and tactical vehicles,
- main battle tanks and tracked combat vehicles,
- munitions and armaments,
- axle and drivetrain components and aftermarket parts, and
- support and sustainment services.

We have a mature and diverse portfolio of franchise products that deliver core capabilities to domestic and international customers. We pursue continuous process improvements and other cost-reduction initiatives to improve our productivity and operating performance. We apply our design and engineering expertise to develop improvements that advance the utility, safety and effectiveness of our products.

The portfolio of platforms in our U.S. military vehicles business includes the Stryker wheeled combat vehicle, the Abrams main battle tank and the Buffalo route clearance vehicle. These vehicles are fundamental to military warfighting capabilities and offer continuing opportunities for upgrades and modernization to meet evolving requirements.

The Stryker has proven itself a versatile combat vehicle, supporting numerous missions for more than 10 years. The group developed a double-V-hulled Stryker to further improve soldier protection from improvised explosive devices (IEDs). Nearly 780 double-V-hulled vehicles representing two Stryker brigades have been delivered to the U.S. Army since 2011. In late 2013, the group received a contract to field the first 96 of 341 vehicles in a third Stryker brigade by 2017.

We continue to support the Army's evolving needs for main battle tanks with technology upgrades to the Abrams, such as the System Enhancement Package (SEP), which provides a digital platform with an enhanced command-and-control system, second-generation thermal sights and improved armor. In September 2013, we conducted a preliminary design review with the Army under a five-year development contract that provides opportunities for fleet-wide vehicle modernization.

The group's portfolio of tactical vehicles is at the forefront of blast- and ballistic-protected technologies, designed to protect vehicle occupants from landmines, hostile fire and IEDs. The Buffalo vehicle is a recognized leader in route clearance missions and has been fielded to several North American and European countries. We have delivered approximately 5,600 RG-31 and Cougar vehicles to the U.S. military under the Mine-Resistant, Ambush Protected (MRAP) vehicle program. This installed base has led to subsequent modernization programs, as well as support and sustainment services. Further, the group entered the light mobility vehicle market with two key U.S. Special Operations Command vehicle awards in 2013 for the Ground Mobility Vehicle (GMV) and the Internally-Transportable Vehicle (ITV) programs.

Beyond these long-term programs, we have opportunities associated with the refurbishment of battle-damaged vehicles and the replacement of equipment that has reached the end of its service life. As the sole

provider of Abrams tanks and Stryker and Buffalo vehicles, Combat Systems is the primary contractor for the maintenance, repair and reset of these vehicles.

By leveraging the expertise gained from our incumbency on current engineering and production programs, we are well-positioned to participate in next-generation U.S. combat vehicle development programs. In addition to the Abrams and Stryker modernization efforts, we have a contract for the design and development phase of the Army's new infantry fighting vehicle, the Ground Combat Vehicle (GCV). The group is also positioning itself for future work on the Amphibious Combat Vehicle (ACV), the cornerstone of the U.S. Marine Corps' future amphibious-assault requirements, and the Army's Armored Multi-Purpose Vehicle (AMPV) program, a replacement for the M113 family of vehicles.

As a result of the demonstrated success of our U.S. military vehicles, we have cultivated continued international demand. The group's U.S. exports include Abrams tanks and light armored vehicles (LAVs) for U.S. allies around the world. For the U.K. Ministry of Defence (MoD), we are producing the Foxhound armored vehicle and developing the Specialist Vehicle (SV). Under the SV program, the U.K. MoD plans to acquire 589 vehicles with four variants. We have also generated significant opportunities in countries where we have operations. We are modernizing approximately 600 LAV III combat vehicles for the Canadian government, as well as providing long-term support to all Canadian LAV vehicles. The group's European operations offer a broad range of products, including military vehicles, amphibious bridge systems and artillery systems for customers at home and abroad. Key platforms include the Leopard tank, the Pizarro and ASCOD tracked infantry vehicles, the Duro and Eagle wheeled vehicles, and the Piranha and Pandur wheeled armored vehicles.

Complementing these combat-vehicle offerings are Combat Systems' weapons systems and munitions programs. For ground forces, the group manufactures reactive vehicle armor, M2 heavy machine guns, and MK19 and MK47 grenade launchers. For airborne platforms, the group produces weapons for U.S. and foreign fighter aircraft, including high-speed Gatling guns for all U.S. fixed-wing military aircraft. We are also a global manufacturer and supplier of composite aircraft and ground equipment components and highly engineered axles, suspensions, brakes and aftermarket parts for a variety of military and commercial customers.

Our munitions portfolio covers the full breadth of naval, air and ground forces applications across all calibers and weapons platforms for the U.S. government and its allies. The group holds leading munitions supply positions for products such as Hydra-70 rockets, large-caliber tank ammunition, medium-caliber ammunition, mortar and artillery projectiles, tactical missile aerostructures and high-performance warheads, military propellants, and conventional bombs and bomb cases.

The Combat Systems group continues to emphasize operational execution and business optimization initiatives to drive cost reductions as the group delivers on its backlog. In response to decreased customer spending, the group has undertaken restructuring activities to ensure we remain competitively positioned for the future. In an environment of dynamic threats and evolving customer needs, the group remains agile and focused on innovation, affordability and speed-to-market to deliver on our current programs and to secure new opportunities.

Revenues for the Combat Systems group were 27 percent of our consolidated revenues in 2011, 25 percent in 2012 and 20 percent in 2013. Revenues by major products and services were as follows:

Year Ended December 31	2011	2012	2013
Wheeled combat vehicles	\$4,220	\$3,930	\$2,709
Munitions and armaments	2,054	1,950	1,761
Tanks and tracked vehicles	1,159	792	595
Engineering and development	397	516	553
Drivetrain components and other	997	804	502
Total Combat Systems	\$8,827	\$7,992	\$6,120

MARINE SYSTEMS

Our Marine Systems group designs, builds and supports submarines and surface ships. We are one of two primary shipbuilders for the U.S. Navy. The group's diverse portfolio of platforms and capabilities includes:

- nuclear-powered submarines,
- surface combatants,
- auxiliary and combat-logistics ships,
- commercial Jones Act ships,
- design and engineering support, and
- overhaul, repair and lifecycle support services.

Our work for the Navy includes the construction of new ships and the design and development of next-generation platforms to help meet evolving missions and maintain desired fleet size. More than 95 percent of the group's revenues are for major Navy ship-construction programs awarded under large, multi-ship contracts that span several years. These programs include Virginia-class nuclear-powered submarines, Arleigh Burke-class (DDG-51) and Zumwalt-class (DDG-1000) guided-missile destroyers, and Mobile Landing Platform (MLP) auxiliary support ships. The Virginia-class submarine includes capabilities for open-ocean and littoral missions. These stealthy boats are well-suited for a variety of global assignments, including intelligence gathering, special-operations missions and sea-based missile launch. The Virginia-class program includes 30 submarines, which the customer is procuring in multi-boat blocks. The group has delivered 10 of 18 boats under contract in conjunction with an industry partner that shares in the construction. The remaining eight boats under contract are scheduled for delivery through 2018. We received advanced funding in 2013 for long-lead materials for submarines in the next block of the program and anticipate being awarded a construction contract in 2014.

We are the lead designer and producer of DDG-51s, managing the design, modernization and lifecycle support of these ships. As the only active destroyer in the Navy's global surface fleet, DDG-51s are multi-mission combatants that offer defense against a wide range of threats, including ballistic missiles. We currently have construction contracts for six DDG-51s, including four awarded in 2013, scheduled for delivery through 2022, as well as an option for an additional ship.

The group is also building the three ships planned for the DDG-1000 destroyer program. These ships are equipped with numerous technological enhancements, including a low radar profile, an integrated power system and advanced gun systems that provide a three-fold increase in range over current naval surface weapons. Deliveries of the ships are scheduled for 2015, 2016 and 2018. The first ship in the program is nearly 90 percent complete.

The group's MLP auxiliary support ship serves as a floating transfer station, improving the Navy's ability to deliver equipment and cargo to areas without adequate port access. In 2013, the group delivered the first ship in the program, and construction is underway on the remaining two ships, scheduled for delivery in 2014 and 2015. The Navy's long-term shipbuilding plan includes procurement of a fourth ship in 2014. The

third and fourth ships will be configured as Afloat Forward Staging Bases (AFSB), designed to facilitate a variety of missions in support of special operations, providing significant new capabilities to the customer.

We are also developing new technologies and naval platforms in conjunction with our customers. These design and engineering efforts include the development of the next-generation ballistic-missile submarine to replace the Ohio class of ballistic-missile submarines. In conjunction with these efforts, the group is leading the design of the Common Missile Compartment under joint development for the U.S. Navy and the U.K. Royal Navy.

In addition, Marine Systems provides comprehensive ship and submarine overhaul, repair and lifecycle support services to extend the service life and maximize the value of these ships. Our surface-ship repair operations include a full-service maintenance and repair shipyard on the West Coast and repair shipyards on the East Coast. We also provide extensive submarine repair services in a variety of U.S. locations. In support of allied navies, we offer program management, planning, engineering and design support for submarine and surface-ship construction programs. We also operate ships for the U.S. Military Sealift Command and commercial customers.

Marine Systems has the proven capability to design and produce ships for commercial customers to meet the Jones Act requirement that ships carrying cargo between U.S. ports be built in U.S. shipyards. We currently have construction contracts for nine ships, including seven secured in 2013, scheduled for delivery through 2017. We anticipate that the age of the Jones Act fleet and environmental regulations that impose more stringent emission control limits will continue to provide additional commercial shipbuilding opportunities.

To further the group's goals of operating efficiency, technological innovation, affordability for the customer and continuous improvement, we make strategic investments in our business, often in cooperation with the Navy and local governments. In addition, Marine Systems leverages its design and engineering expertise across its shipyards to improve program execution and generate cost savings. This knowledge-sharing enables the group to use resources more efficiently and drive process improvements. We are well-positioned to continue to fulfill the ship-construction and support requirements of our customers.

Revenues for the Marine Systems group were 20 percent of our consolidated revenues in 2011 and 21 percent in 2012 and 2013. Revenues by major products and services were as follows:

Year Ended December 31	2011	2012	2013
Nuclear-powered submarines	\$3,696	\$3,601	\$3,697
Surface combatants	1,191	1,152	1,139
Auxiliary and commercial ships	930	746	499
Repair and other services	814	1,093	1,377
Total Marine Systems	\$6,631	\$6,592	\$6,712

INFORMATION SYSTEMS AND TECHNOLOGY

Our Information Systems and Technology group is a three-part portfolio providing technologies, products and services that address a wide range of military, federal/civilian and commercial information-system needs. We provide full-spectrum support for product design, development, integration, production and sustainment in:

- secure mobile communication systems;
- information technology (IT) solutions and mission support services; and
- intelligence, surveillance and reconnaissance (ISR), naval control systems and cyber security solutions.

Secure mobile communication systems – We design, integrate and manufacture secure communication and command-and-control systems and operational hardware for customers in the U.S. Department of Defense (DoD), the intelligence community, federal/civilian and public safety agencies, and for international customers. Our leadership in this market results from decades of domain expertise, incumbency on priority programs and continuous innovation to deliver technologies that meet our customers' needs. These solutions include:

- fixed and mobile radio and satellite communication systems and antenna technologies;
- information assurance and encryption, products, systems and services;
- command-and-control systems; and
- broadband networking.

We improve our customers' ability to communicate, collaborate and access vital information. For example, we are the prime contractor for the Army's top modernization priority, the Warfighter Information Network-Tactical (WIN-T), a mobile battlefield communication network that provides soldiers secure, high-speed, high-capacity voice, data and video communications. We are responsible for the design, engineering, integration, production, program management and support of this network.

We are also the prime contractor on many of the Army's core tactical radio programs, including the AN/PRC-154A Rifleman and AN/PRC-155 two-channel Manpack radios. These products give soldiers secure mobile voice, video and data communications capabilities, similar to those available through commercial cellular networks. The Army has purchased more than 26,000 of these radios from us and plans to competitively procure more than 240,000. We deliver similar communications and information-sharing benefits to federal/civilian customers, including air traffic controller radios to the Federal Aviation Administration (FAA).

Information Systems and Technology also provides many of these capabilities to non-U.S. public agencies and commercial customers. For the Canadian Department of National Defence, we developed, deployed and continue to support the Canadian Army's fully integrated, secure combat voice and data network. We leveraged this experience to deliver the U.K. MoD's Bowman tactical communication system for which we provide ongoing support and capability upgrades.

IT solutions and mission support services – We design, build and operate large-scale secure IT networks and systems and provide professional and technical services and solutions to the U.S. defense and intelligence communities; to the Departments of Homeland Security and Health and Human Services, and other federal/civilian agencies; and to commercial and international customers. We specialize in:

- secure wireless and wire-line networks, enterprise infrastructure, network operations and maintenance;
- health IT solutions and services;
- large-scale data center optimization and modernization; and
- mission operations, simulation and training systems and services.

Information Systems and Technology provides technical-support personnel and domain specialists to help customers execute their missions. Our employees develop, install and operate mission systems on a daily basis. We also supply network-modernization and IT infrastructure services to U.S. government customers, commercial wireless network providers, and federal, state and local public safety agencies. We work closely with our customers to ensure their network infrastructures are secure, efficient, scalable and cost-effective. We are at the forefront of cloud technologies and services.

The group is a leading provider in the healthcare IT market, supporting military and other U.S. government health systems with critical citizen services for healthcare reform and medical benefits programs.

Our offerings include data management, analytics, fraud prevention and detection software, process automation and program management solutions for public and commercial health systems. For example, we are operating approximately 15 customer contact centers for the Centers for Medicare & Medicaid Services, responding to consumer inquiries about key programs and providing call center services for the Patient Protection and Affordable Care Act program.

Intelligence, surveillance and reconnaissance systems – We design, build, deploy and support ISR, naval control systems and cyber security solutions for customers in the U.S. defense, intelligence and homeland security communities, and to U.S. allies. Our offerings include:

- signals and information collection, processing and distribution systems and imagery sensors;
- cyber security solutions and products; and
- open-architecture surface and undersea naval control systems.

Information Systems and Technology provides solutions for classified programs. Our expertise includes multi-intelligence ground systems, command-and-control and reconnaissance systems and large-scale, high-performance data and signal processing. We deliver high-reliability, long-life sensors and payloads designed to perform in the most extreme environments, including space payloads and undersea sensor and power systems.

In addition, our experience in securing and protecting organizations from network attacks has resulted in a market-leading position in cyber security. The group offers comprehensive services and products to help customers protect their networks from internal and external threats and prevent data breaches. For example, we are supporting the DoD’s Cyber Crime Center and the Department of Homeland Security’s National Cybersecurity Protection System. We leverage this expertise to provide investigative, forensic and network remediation services to commercial victims of cyber attacks, including retail and financial services firms.

Information Systems and Technology also has a 50-year legacy of providing advanced fire-control systems for Navy submarine programs and is developing and integrating commercial off-the-shelf software and hardware upgrades to improve the tactical control capabilities for several submarine classes. Capitalizing on this expertise, we developed the combat and seaframe control systems and are the lead systems integrator for the Navy’s Independence-variant Littoral Combat Ship (LCS) and the electronic systems for the Navy’s Joint High Speed Vessel (JHSV).

The group is well-positioned to continue meeting the needs of our diverse customer base. We are continuing to improve performance across the portfolio by optimizing the size of the business while developing innovative solutions to meet evolving customer requirements.

Revenues for the Information Systems and Technology group were 34 percent of our consolidated revenues in 2011, 32 percent in 2012 and 33 percent in 2013. Revenues by major products and services were as follows:

Year Ended December 31	2011	2012	2013
Mobile communication systems	\$4,511	\$3,425	\$3,657
IT solutions and mission support services	4,601	4,545	4,734
Intelligence, surveillance and reconnaissance systems	2,109	2,047	1,877
Total Information Systems and Technology	\$11,221	\$10,017	\$10,268

CUSTOMERS

In 2013, 62 percent of our revenues were from the U.S. government, 18 percent were from U.S. commercial customers, 7 percent were from international defense customers and the remaining 13 percent were from international commercial customers.

U.S. GOVERNMENT

Our primary customer is the U.S. Department of Defense (DoD). We also contract with other U.S. government customers, including the intelligence community, the Departments of Homeland Security and Health and Human Services and first-responder agencies. Our revenues from the U.S. government were as follows:

Year Ended December 31	2011	2012	2013	
DoD	\$19,221	\$17,217	\$15,441	
Non-DoD	2,212	2,382	2,790	
Foreign Military Sales (FMS)*	1,170	1,206	1,032	
Total U.S. government	\$22,603	\$20,805	\$19,263	
Percent of total revenues	69	% 66	% 62	%

* In addition to our direct international sales, we sell to foreign governments through the FMS program. Under the FMS program, we contract with and are paid by the U.S. government, and the U.S. government assumes the risk of collection from the foreign government customer.

We perform our U.S. government business under fixed-price, cost-reimbursement and time-and-materials contracts. Our production contracts are primarily fixed-price. Under these contracts, we agree to perform a specific scope of work for a fixed amount. Contracts for research, engineering, repair and maintenance and other services are typically cost-reimbursement or time-and-materials. Under cost-reimbursement contracts, the customer reimburses contract costs and pays a fixed fee or an incentive- or award-based fee. These fees are determined by our ability to achieve targets set in the contract, such as cost, quality, schedule and performance. Under time-and-materials contracts, the customer pays a fixed hourly rate for direct labor and reimburses us for material costs.

Fixed-price contracts accounted for 56 percent of our U.S. government business in 2012 and 54 percent in 2013; cost-reimbursement contracts accounted for 39 percent in 2012 and 42 percent in 2013; and time-and-materials contracts accounted for 5 percent in 2012 and 4 percent in 2013.

Each of these contract types presents advantages and disadvantages. Fixed-price contracts typically have higher fee levels as we assume more risks, such as any cost overruns under our control. These types of contracts offer additional profits when we complete the work for less than the contract amount. Cost-reimbursement contracts generally subject us to lower risk. Accordingly, the negotiated base fees are usually lower than fees earned on fixed-price contracts. Cost-reimbursement contracts also can include fee provisions that can require the customer to make additional payments when we satisfy specific performance criteria. Additionally, not all costs are allowable under these types of contracts and the government reviews the costs we charge. Under time-and-materials contracts, our profit may vary if actual labor-hour costs vary significantly from the negotiated rates. Also, because these contracts can provide little or no fee for managing material costs, the content mix can impact profit margins.

U.S. COMMERCIAL

Our U.S. commercial revenues were \$3.8 billion in 2011, \$4.2 billion in 2012 and \$5.6 billion in 2013. This represented approximately 12 percent of our consolidated revenues in 2011, 13 percent in 2012 and 18 percent in 2013. The majority of these revenues are for business-jet aircraft and services where our customer base consists of individuals and public and privately held companies representing a wide range of industries.

INTERNATIONAL

Our direct revenues from non-U.S. government and commercial customers were \$6.3 billion in 2011, \$6.5 billion in 2012 and \$6.4 billion in 2013. This represented approximately 19 percent of our consolidated revenues in 2011, 21 percent in 2012 and 20 percent in 2013.

We conduct business with government customers around the world with operations in Australia, Brazil, Canada, France, Germany, Mexico, Spain, Switzerland and the United Kingdom. Our non-U.S. defense subsidiaries are committed to maintaining long-term relationships with their respective governments and have distinguished themselves as principal regional suppliers and employers.

Our international commercial business consists primarily of business-jet aircraft exports and worldwide aircraft services. The market for business-jet aircraft and related services outside North America has expanded significantly in recent years. While the installed base of aircraft is concentrated in North America, orders from international customers represent a significant segment of our aircraft business with approximately 65 percent of total backlog on December 31, 2013.

For a discussion of the risks associated with conducting business in international locations, see Risk Factors contained herein. For information regarding revenues and assets by geographic region, see Note Q to the Consolidated Financial Statements in Item 8.

COMPETITION

Several factors determine our ability to compete successfully in the defense and business-aviation markets. While customers' evaluation criteria vary, the principal competitive elements include:

- the technical excellence, reliability and cost competitiveness of our products and services;
- our ability to innovate and develop new products and technologies that improve mission performance and adapt to dynamic threats;
- successful program execution and on-time delivery of complex, integrated systems;
- our global footprint and accessibility to customers;
- our presence in the countries of several key customers;
- the reputation and customer confidence derived from our past performance; and
- the successful management of customer relationships.

DEFENSE MARKET COMPETITION

The U.S. government contracts with numerous domestic and foreign companies for products and services. We compete against other large-platform and system-integration contractors as well as smaller companies that specialize in a particular technology or capability. Internationally, we compete with global defense contractors' exports and the offerings of private and state-owned defense manufacturers based in the countries where we operate. Our Combat Systems group competes with a large number of domestic and foreign businesses. Our Marine Systems group has one primary competitor with which it also partners on the Virginia-class submarine program. Our Information Systems and Technology group competes with many companies, from large defense companies to small niche competitors with specialized technologies or expertise. The operating cycle of many of our major platform programs can result in sustained periods of program continuity when we perform successfully.

We are involved in teaming and subcontracting relationships with some of our competitors. Competitions for major defense programs often require companies to form teams to bring together broad capabilities to meet the customer's requirements. Opportunities associated with these programs include roles as the

program's integrator, overseeing and coordinating the efforts of all participants on the team, or as a provider of a specific component or subsystem.

BUSINESS-JET AIRCRAFT MARKET COMPETITION

The Aerospace group has several competitors for each of its Gulfstream products. Key competitive factors include aircraft safety, reliability and performance; comfort and in-flight productivity; service quality, global footprint and responsiveness; technological and new-product innovation; and price. We believe that Gulfstream competes effectively in all of these areas.

The Aerospace group competes worldwide in its business-jet aircraft services business primarily on the basis of price, quality and timeliness. In its maintenance, repair and FBO businesses, the group competes with several other large companies as well as a number of smaller companies, particularly in the maintenance business. In its completions business, the group competes with other OEMs, as well as several third-party providers.

BACKLOG

Our total backlog represents the estimated remaining value of work to be performed under firm contracts and includes funded and unfunded portions. For additional discussion of backlog, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

Summary backlog information for each of our business groups follows:

December 31	2012			2013			2013 Total Backlog Not Expected to Be Completed in 2014
	Funded	Unfunded	Total	Funded	Unfunded	Total	
Aerospace	\$15,458	\$209	\$15,667	\$13,785	\$158	\$13,943	\$7,442
Combat Systems	7,442	1,298	8,740	5,571	1,113	6,684	2,611
Marine Systems	13,495	3,606	17,101	11,795	5,063	16,858	11,573
Information Systems and Technology	8,130	1,643	9,773	7,253	1,267	8,520	1,864
Total backlog	\$44,525	\$6,756	\$51,281	\$38,404	\$7,601	\$46,005	\$23,490

RESEARCH AND DEVELOPMENT

To foster innovative product development and evolution, we conduct sustained R&D activities as part of our normal business operations. In the commercial sector, most of our Aerospace group's R&D activities support Gulfstream's product enhancement and development programs. In our U.S. defense businesses, we conduct customer-sponsored R&D activities under government contracts and company-sponsored R&D. In accordance with government regulations, we recover a significant portion of company-sponsored R&D expenditures through overhead charges to U.S. government contracts. For more information on our company-sponsored R&D activities, including our expenditures for the past three years, see Note A to the Consolidated Financial Statements in Item 8.

INTELLECTUAL PROPERTY

We develop technology, manufacturing processes and systems-integration practices. In addition to owning a large portfolio of proprietary intellectual property, we license some intellectual property rights to and from

others. The U.S. government holds licenses to many of our patents developed in the performance of U.S. government contracts, and it may use or authorize others to use the inventions covered by these patents. Although these intellectual property rights are important to the operation of our business, no existing patent, license or other intellectual property right is of such importance that its loss or termination would have a material impact on our business.

EMPLOYEES

On December 31, 2013, we and our subsidiaries had 96,000 employees, approximately one-fifth of whom work under collective agreements with various labor unions and worker representatives. Agreements covering approximately 5 percent of total employees are due to expire in 2014. Historically, we have renegotiated labor agreements without any significant disruption to operating activities.

RAW MATERIALS, SUPPLIERS AND SEASONALITY

We depend on suppliers and subcontractors for raw materials, components and subsystems. These supply networks can experience price fluctuations and capacity constraints, which can put pressure on our costs. Effective management and oversight of suppliers and subcontractors is an important element of our successful performance. We attempt to mitigate these risks with our suppliers by entering into long-term agreements and leveraging company-wide agreements to achieve economies of scale, and by negotiating flexible pricing terms in our customer contracts. We have not experienced, and do not foresee, significant difficulties in obtaining the materials, components or supplies necessary for our business operations.

Our business is not generally seasonal in nature. The timing of contract awards, the availability of funding from the customer, the incurrence of contract costs and unit deliveries are the primary drivers of our revenue recognition. In the United States, these factors are influenced by the federal government's budget cycle based on its October-to-September fiscal year. Internationally, work for many of our government customers is weighted toward the end of the calendar year.

REGULATORY MATTERS

U.S. GOVERNMENT CONTRACTS

U.S. government contracts are subject to procurement laws and regulations. The Federal Acquisition Regulation (FAR) and the Cost Accounting Standards (CAS) govern the majority of our contracts. The FAR mandates uniform policies and procedures for U.S. government acquisitions and purchased services. Also, individual agencies can have acquisition regulations that provide implementing language for the FAR or that supplement the FAR. For example, the DoD implements the FAR through the Defense Federal Acquisition Regulation Supplement (DFARS). For all federal government entities, the FAR regulates the phases of any product or service acquisition, including:

- acquisition planning,
- competition requirements,
- contractor qualifications,
- protection of source selection and vendor information, and
- acquisition procedures.

In addition, the FAR addresses the allowability of our costs, while the CAS address how those costs can be allocated to contracts. The FAR subjects us to audits and other government reviews covering issues such as cost, performance and accounting practices relating to our contracts.

INTERNATIONAL

Our international sales are subject to the applicable foreign government regulations and procurement policies and practices, as well as U.S. policies and regulations. We are also subject to regulations governing investments, exchange controls, repatriation of earnings and import-export control.

BUSINESS-JET AIRCRAFT

The Aerospace group is subject to FAA regulation in the United States and other similar aviation regulatory authorities internationally, including the Civil Aviation Administration of Israel (CAAI), the European Aviation Safety Agency (EASA) and the Civil Aviation Administration of China (CAAC). For an aircraft to be manufactured and sold, the model must receive a type certificate from the appropriate aviation authority and each aircraft must receive a certificate of airworthiness. Aircraft outfitting and completions also require approval by the appropriate aviation authority, which often is accomplished through a supplemental type certificate. Aviation authorities can require changes to a specific aircraft or model type before granting approval. Maintenance facilities and charter operations must be licensed by aviation authorities as well.

ENVIRONMENTAL

We are subject to a variety of federal, state, local and foreign environmental laws and regulations. These laws and regulations cover the discharge, treatment, storage, disposal, investigation and remediation of certain materials, substances and wastes. We are directly or indirectly involved in environmental investigations or remediation at some of our current and former facilities and at third-party sites that we do not own but where we have been designated a Potentially Responsible Party (PRP) by the U.S. Environmental Protection Agency or a state environmental agency. As a PRP, we potentially are liable to the government or third parties for the cost of remediating contamination. In cases where we have been designated a PRP, generally we seek to mitigate these environmental liabilities through available insurance coverage and by pursuing appropriate cost-recovery actions. In the unlikely event we are required to fully fund the remediation of a site, the current statutory framework would allow us to pursue contributions from other PRPs. We regularly assess our compliance status and management of environmental matters.

Operating and maintenance costs associated with environmental compliance and management of contaminated sites are a normal, recurring part of our operations. Historically, these costs have not been material. Environmental costs often are recoverable under our contracts with the U.S. government. Based on information currently available and current U.S. government policies relating to cost recovery, we do not expect continued compliance with environmental regulations to have a material impact on our results of operations, financial condition or cash flows. For additional information relating to the impact of environmental matters, see Note N to the Consolidated Financial Statements in Item 8.

AVAILABLE INFORMATION

We file several types of reports and other information with the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. These reports and information include an annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements. Free copies of these items are made available on our website (www.generaldynamics.com) as soon as practicable and through the General Dynamics investor relations office at (703) 876-3583.

These items also can be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room is available by calling the SEC at (800) SEC-0330. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information.

ITEM 1A. RISK FACTORS

An investment in our common stock or debt securities is subject to risks and uncertainties. Investors should consider the following factors, in addition to the other information contained in this Annual Report on Form 10-K, before deciding whether to purchase our securities.

Investment risks can be market-wide as well as unique to a specific industry or company. The market risks faced by an investor in our stock are similar to the uncertainties faced by investors in a broad range of industries. There are some risks that apply more specifically to our business.

Our revenues are concentrated with the U.S. government. This customer relationship involves some specific risks. In addition, our sales to international customers expose us to different financial and legal risks. Despite the varying nature of our U.S. and international defense and business-aviation operations and the markets they serve, each group shares some common risks, such as the ongoing development of high-technology products and the price, availability and quality of commodities and subsystems.

The U.S. government provides a significant portion of our revenues. In each of the past three years, approximately two-thirds of our revenues were from the U.S. government. U.S. defense spending is driven by threats to national security. While the country has been under an elevated threat level for more than a decade, competing demands for federal funds are pressuring various areas of spending. Defense investment accounts (budgets for procurement and research and development) remain under pressure. Decreases in U.S. government defense spending, including investment accounts, or changes in spending allocation could result in one or more of our programs being reduced, delayed or terminated, which could impact our financial performance.

For additional information relating to the U.S. defense budget, see the Business Environment section of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.