

GENERAL DYNAMICS CORP
Form DEF 14A
March 18, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- | | |
|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, For Use of the Commission Only
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| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
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Pursuant to Section 240.14a-12

General Dynamics Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

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March 18, 2016

Dear Fellow Shareholder:

We are pleased to present you with the 2016 General Dynamics Proxy Statement. This year's Proxy Statement reiterates our commitment to sound corporate governance practices and demonstrates the strong link between pay and performance in our executive compensation program. The details of our governance and executive compensation programs are presented throughout this Proxy Statement and referenced documents.

We remain committed to engaging with our shareholders to ensure we are aware of your priorities. We continue to be encouraged that most of our shareholders view favorably our executive compensation and corporate governance programs.

Our Board continues to reflect a diverse and extremely well-qualified group of business leaders, aerospace and defense industry experts, and strategic advisors. Our newest director, Mark Malcolm, further strengthens the Board's financial expertise and adds to the Board's collective corporate governance experience.

Our 2015 financial performance was outstanding. Our revenue and operating earnings grew in each of our business groups—Aerospace, Combat Systems, Information Systems and Technology, and Marine Systems. Once again, we achieved record-high earnings from continuing operations, operating margin and earnings per share (EPS). Our robust backlog provides growth well into the future from orders for products and services across our businesses. As we look forward, we remain focused on strong operating performance and prudent capital deployment, all of which allows us to deliver value to you, our shareholders.

On behalf of the Board of Directors, I invite you to attend the 2016 Annual Meeting of Shareholders and, even if you are not able to attend, encourage you to vote. The accompanying Proxy Statement contains information about the matters on which you are asked to vote. I urge you to read the materials carefully and vote in accordance with the Board of Directors' recommendations. Your vote is very important.

Sincerely,

Phebe N. Novakovic

Chairman and Chief Executive Officer

2941 Fairview Park Drive, Suite 100

Falls Church, Virginia 22042

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Important Notice Regarding the Availability of Proxy Materials

for the Shareholder Meeting to Be Held on May 4, 2016

The Proxy Statement and 2015 Annual Report are Available at

www.generaldynamics.com/2016proxy

You are invited to our Annual Meeting of Shareholders of General Dynamics Corporation, a Delaware corporation, on Wednesday, May 4, 2016, at 9:00 a.m. local time at the General Dynamics Corporation headquarters located at 2941 Fairview Park Drive, Falls Church, Virginia. Proposals to be considered at the Annual Meeting include:

the election of 12 directors from the nominees named in the Proxy Statement (proposal 1);

an advisory vote on the selection of KPMG LLP, an independent registered public accounting firm, as the company's independent auditors for 2016 (proposal 2);

an advisory vote to approve executive compensation (proposal 3);

the approval of the General Dynamics Corporation Executive Annual Incentive Plan (proposal 4);

a shareholder proposal as described in this Proxy Statement, provided it is presented properly at the meeting (proposal 5); and

the transaction of all other business that properly comes before the meeting or any adjournment or postponement of the meeting.

The Board of Directors unanimously recommends that you vote FOR proposals 1, 2, 3 and 4.

The Board of Directors unanimously recommends that you vote AGAINST proposal 5.

Shareholders may raise other matters as described in the accompanying Proxy Statement.

The Board of Directors set the close of business on March 3, 2016, as the record date for determining the shareholders entitled to receive notice of, and to vote at, the Annual Meeting. It is important that your shares be represented and voted at the meeting. Please complete, sign and return a proxy card, or use the telephone or Internet voting systems.

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A copy of the 2015 Annual Report accompanies this Notice and Proxy Statement and is available on the website listed above.

By Order of the Board of Directors,

Gregory S. Gallopoulos

Secretary

Falls Church, Virginia

March 18, 2016

General Dynamics 2016 Proxy Statement

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The Board of Directors of General Dynamics Corporation is soliciting your proxy for the Annual Meeting of Shareholders to be held on May 4, 2016, at 9:00 a.m. local time, or at any adjournment or postponement of the meeting. This Proxy Statement, and the accompanying Notice of Annual Meeting of Shareholders and proxy card, are being distributed on or about March 18, 2016, to holders of General Dynamics common stock, par value \$1.00 per share (Common Stock).

Proxy Summary

This summary highlights selected information that is provided in more detail throughout this Proxy Statement. This summary does not contain all of the information you should consider before voting. You should read the full Proxy Statement before casting your vote.

VOTING MATTERS AND BOARD RECOMMENDATIONS

At this year's Annual Meeting, we are asking our shareholders to vote on the following matters:

Proposal	Board Recommendation	Additional Information
Proposal 1: Election of Directors	FOR each nominee	See pages 5 through 12 for more information on the nominees.
Proposal 2: Selection of Independent Auditors	FOR	See page 25 for details.
Proposal 3: Advisory Vote to Approve Executive Compensation	FOR	See page 27 for details.
Proposal 4: Approval of the General Dynamics Corporation Executive Annual Incentive Plan	FOR	See pages 66 through 67 for details.
Proposal 5: Shareholder Proposal	AGAINST	See pages 68 through 69 for details.

ANNUAL MEETING INFORMATION

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Date	Wednesday, May 4, 2016
Time	9:00 a.m. local time
Location	2941 Fairview Park Drive, Falls Church, Virginia
How to Vote	
By Internet	Access www.envisionreports.com/GD
By Telephone	Call 1-800-652-VOTE or outside the U.S., Canada and Puerto Rico call 1-781-575-2300
By Mail	Sign and date each proxy card received and return each card using the prepaid postage envelope
In Person	Attend the Annual Meeting and vote by ballot

Additional information about the Annual Meeting and voting can be found beginning on page 70.

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Proxy Summary

2016 BOARD OF DIRECTORS NOMINEES**DIRECTOR NOMINEES**

Director			
Nominee	Since	Independent	Primary Occupation
Mary T. Barra	2011	Yes	Chairman and CEO, General Motors Company
Nicholas D. Chabraja	1994		Former Chairman and CEO, General Dynamics
James S. Crown*	1987	Yes	President of Henry Crown and Company
Rudy F. deLeon	2014	Yes	Senior Fellow, Center for American Progress
William P. Fricks	2003	Yes	Former Chairman and CEO, Newport News Shipbuilding
John M. Keane	2004	Yes	Retired General, U.S. Army
Lester L. Lyles	2003	Yes	Retired General, U.S. Air Force
Mark M. Malcolm	2015	Yes	President and CEO, Tower International
James N. Mattis	2013	Yes	Retired General, U.S. Marine Corps
Phebe N. Novakovic	2012		Chairman and CEO, General Dynamics
William A. Osborn	2009	Yes	Former Chairman and CEO, Northern Trust Corporation
Laura J. Schumacher	2014	Yes	EVP, External Affairs and General Counsel, AbbVie

* *Lead Director***Balanced Director Tenure****(Current Directors)****Strong Director Engagement****(2015 Attendance)****A COMMITMENT TO SOUND CORPORATE GOVERNANCE**

Our Board of Directors believes that a commitment to good corporate governance enhances shareholder value. Sound corporate governance starts with a strong value system, and the value system starts in the boardroom. General Dynamics corporate ethos our distinguishing moral nature is rooted in five overarching values.

THE GENERAL DYNAMICS ETHOS

Honesty	We tell the truth to ourselves and to others. Honesty breeds transparency.
Trust	We trust each other to do the right thing.
Humanity	We are compassionate and empathetic. We respect the dignity, rights and autonomy of others.
Alignment	We are united in our commitment to our values.
Value Creation	We create value by doing the right thing for our shareholders, our customers, our employees and our communities.

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Proxy Summary

Highlights of our governance practices include:

	Governance Practice	For more information
Stock Ownership	Market-leading stock ownership requirements for our executive officers require them to hold shares of our Common Stock worth eight to 15 times base salary. Director stock ownership guidelines provide that our directors should hold at least 4,000 shares of our Common Stock within five years of joining the Board.	P. 50
	A policy prohibiting hedging and pledging of our Common Stock by directors and executive officers discourages excessive risk-taking.	P. 50
	Ten of our 12 director nominees are independent directors . All of our standing Board committees are chaired by independent directors. Our Audit, Compensation and Nominating and Corporate Governance Committees are 100 percent independent.	P. 15
	An independent Lead Director with a robust set of responsibilities is elected annually by the Board and provides additional independent oversight of senior management and board matters.	P. 15
	Our directors are elected annually based on a majority voting standard for uncontested elections. We have a resignation policy if a director fails to receive a majority of votes cast.	P. 72
	Our directors attended on average more than 97 percent of board and committee meetings in 2015 with no director attending less than 88 percent.	P. 17
	Our non-management directors meet in executive session , without management present, at each regularly scheduled meeting, presided by the Lead Director.	P. 17
	Our directors are restricted on the number of other boards on which they may serve in order to prevent	Corporate Governance Guidelines*

	<i>overboarding</i> .	
	Our <i>related person transactions policy</i> ensures appropriate Board review of related person transactions.	P. 22
	Annual <i>Board and committee self-assessments</i> monitor the performance and effectiveness of the Board and its committees.	P. 21
	Diligent <i>Board oversight of risk</i> is a cornerstone of the company's risk management program.	P. 19
Corporate Responsibility	Our <i>ethics program</i> includes strong Codes of Ethics for all employees globally, with specific codes for our financial professionals and directors.	P. 14
	A <i>sustainability report</i> , updated in 2015, discusses our ethos, our commitment to our stakeholders and communities, and our commitment to diversity and inclusion.	www.gd.com/Responsibility www.gd.com/Responsibility
	Disclosure of our <i>corporate political contributions</i> and our <i>trade association dues</i> describes the process and oversight we employ in each area.	www.gd.com/AdditionalDisclosure
	We have a strong corporate commitment to respect the dignity, <i>human rights</i> and autonomy of others.	Corporate Sustainability Report
	In 2015, we implemented <i>proxy access</i> , providing our shareholders with the ability to nominate director candidates and have those nominees included in our proxy statement, subject to meeting the requirements in our Bylaws.	Bylaws*
Shareholder Rights	We <i>do not have a shareholder rights plan</i> , or poison pill; any future rights plan must be submitted to shareholders.	Corporate Governance Guidelines*
	Our shareholders have the right to request a <i>special meeting</i> of shareholders.	Bylaws*

* Our Corporate Governance Guidelines and Bylaws are available on our website at www.gd.com/CorporateGovernance.

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Proxy Summary

SHAREHOLDER ENGAGEMENT

Our Board is Committed to Robust Shareholder Engagement. Over the past several years, members of our Board and senior management, including our independent Lead Director and compensation committee chair, have engaged with holders of over 65 percent of our outstanding Common Stock to discuss corporate governance and executive compensation matters. Recently, we solicited input from, and considered the views of many of our shareholders prior to our December 2015 adoption of proxy access. In addition, in 2015 the Board formed an *ad hoc* group of directors, anchored by the chairman and the independent Lead Director, to liaise with significant shareholders. Our Board remains committed to soliciting and understanding shareholder views and responding as appropriate.

PERFORMANCE AND EXECUTIVE COMPENSATION HIGHLIGHTS

Creating Sustainable Long-Term Shareholder Value. Over the past three years, we have focused relentlessly on continuous improvement throughout our operations and the wise deployment of capital to increase shareholder value. In 2015, this approach again delivered us a year of improved operational results and record-setting financial performance, some of which is highlighted below. We deployed capital prudently through continued investment in the future growth areas of our company and by returning 2.1 times our free cash flow from operations to shareholders in the form of dividends and share repurchases. Our continued focus on operational improvement, successful execution on our robust backlog and the continued demand for our products and services throughout each business unit leaves us well-positioned to deliver on our commitment to long-term value creation.

2015 Financial Highlights

Earnings from Continuing Operations	\$3.0 billion	Highest in company history
Operating Margin	13.3%	Highest in company history
Free Cash Flow from Operations	\$1.9 billion	Significantly exceeded company expectations
Return on Invested Capital	17.4%	Significant increase over 2014
Quarterly Dividends	\$0.69 per share	18th consecutive year with a dividend increase
Order Backlog	\$66.1 billion	Robust backlog and continued demand in each business segment

A Consistent Focus on Aligning Compensation with Performance. Our compensation philosophy at General Dynamics is to align executive compensation with company, business group and individual performance, and to provide the incentives necessary to attract, motivate and retain the executives that help drive the company's success. We have received positive shareholder feedback about our executive compensation program, and received a nearly

90% vote in favor of our executive compensation program at last year's annual meeting. Our program's pay-for-performance philosophy has generated strong results for the company.

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ELECTION OF THE BOARD OF DIRECTORS OF THE COMPANY

(PROPOSAL 1)

Director Nominations. General Dynamics directors are elected at each annual meeting of shareholders and hold office for one-year terms or until successors are elected and qualified. The Nominating and Corporate Governance Committee considers director nominees from various sources and chooses nominees with the primary goal of ensuring the Board collectively serves the interests of shareholders.

Diversity and Inclusion. In order to sustain a global business, we must bring together a group of people with a vision for the future and diversity of thought. We must have leadership, at both the executive and Board levels, to develop and execute our business objectives better than our competition. At the heart of our company are diverse executives, managers and employees worldwide who rely on their intimate knowledge of customer requirements and a unique blend of skill and innovation to develop and deliver the best possible products and services.

Our current Board members come from a variety of backgrounds and bring a diverse set of skills and experiences to the boardroom. This ensures that our directors bring a broad perspective to the company on a range of important issues.

Director Skills and Experience. In assessing director candidates, the Nominating and Corporate Governance Committee considers the background and professional experience of the candidates in the context of the current Board composition to ensure a diverse range of backgrounds, talent, skill and expertise, including gender and racial diversity. Relevant criteria considered by the committee include: business and financial expertise, technical expertise and familiarity with issues affecting aerospace and defense

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Election of Directors

businesses. The committee also carefully considers any potential conflicts of interest. All nominees must possess good judgment, an inquiring and independent mind, and a reputation for the highest personal and professional ethics, integrity and values. Nominees must be willing to devote sufficient time and effort to carrying out their duties and responsibilities through attendance and engagement with the company, as well as a commitment to serving on the Board for an extended period of time.

For the nomination of director candidates for re-election, the committee considers the factors described above and each director's attendance record at, and participation in, Board and committee meetings and participation in, and contributions to, Board and committee activities.

In considering Board nominees, the Nominating and Corporate Governance Committee considers each individual's background and personal and professional experiences in addition to the general qualifications. Nominees are evaluated in the context of the Board as a whole, with a focus on achieving an appropriate mix of skills needed to lead the company at the Board level. The committee regularly assesses and communicates with the Board about the current and future skills and backgrounds that would ensure the Board maintains an appropriate mix. Such skills include those highlighted in the following table. Each nominee possesses additional skills and experience that are not highlighted among those listed below.

DIRECTOR SKILLS, KNOWLEDGE AND EXPERIENCE MATRIX

	Aerospace and Defense Industry	Corporate Governance and Public Company Board	Finance or Accounting	Government Relations and Regulatory	Global Business and Strategy	Operations and Manufacturing
Barra		ü	ü	ü	ü	ü
Chabraja	ü	ü	ü	ü	ü	ü
Crown		ü	ü		ü	
deLeon	ü	ü		ü	ü	
Fricks	ü	ü	ü	ü		ü
Keane	ü	ü		ü	ü	
Lyles	ü	ü	ü	ü		ü
Malcolm		ü	ü		ü	ü
Mattis	ü			ü	ü	
Novakovic	ü	ü	ü	ü	ü	ü

Osborn	ü	ü	ü	ü	ü	ü
Schumacher	ü	ü	ü	ü	ü	ü
Why is this important for General Dynamics?	<i>Supports oversight of the company's business performance and strategic development in our core industry</i>	<i>Ensures the background and knowledge necessary to provide effective oversight and governance</i>	<i>Enables in-depth analysis of our financial statements and understanding of our capital structure, financial transactions and financial reporting processes</i>	<i>Critical for an understanding of the complex regulatory and governmental environment involving our business</i>	<i>Important for oversight of a complex organization with operations worldwide</i>	<i>Necessary in overseeing a complex, global manufacturing company</i>

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Election of Directors

2016 Director Nominees. The following 12 nominees are standing for election to the Board of Directors at the Annual Meeting. All nominees are currently serving as directors. If any nominee withdraws or for any reason is unable to serve as a director, your proxy will be voted for any remaining nominees (except as otherwise indicated in your proxy) and any replacement nominee designated by the Nominating and Corporate Governance Committee of the Board of Directors.

MARY T. BARRA

Chairman of General Motors Company since January 2016 and Chief Executive Officer since January 2014; Executive Vice President, Global Product Development, Purchasing & Supply Chain, 2013 to 2014; Senior Vice President, Global Product Development, 2011 to 2013; Vice President, Global Human Resources, 2009 to 2011; Vice President, Global Manufacturing Engineering, 2008 to 2009

COMMITTEES:

Compensation

Ms. Barra currently serves as Chairman of the General Motors Company Board of Directors.

Finance and Benefit Plans

DIRECTOR SINCE MARCH
2011

AGE: 54

Key Attributes/Skills/Expertise: Ms. Barra's current position with General Motors as chairman and chief executive officer, and her former positions as senior vice president, global product development; vice president, global human resources; and vice president, global manufacturing engineering, position her well to advise our businesses on a broad range of matters in the areas of engineering, manufacturing, research and development, and human resources. Her strong and diversified business background provides her with a deep understanding of the challenges and risks facing large public companies with complex global operations.

NICHOLAS D. CHABRAJA

Chairman of General Dynamics, 1997 to 2010; Chief Executive Officer, 1997 to 2009; Vice Chairman, 1996 to 1997; Executive Vice President, 1994 to 1996

Mr. Chabreja currently serves as non-executive chairman of Tower International, Inc. He served as a director of Northern Trust Corporation within the past five years.

COMMITTEES:

Finance and Benefit Plans

DIRECTOR SINCE MARCH
1994

AGE: 73

Key Attributes/Skills/Expertise: Mr. Chabraja's 15 years of service as a senior executive officer and 12-year tenure as chairman and chief executive officer of our company make him an experienced and trusted advisor. He has in-depth knowledge of all aspects of General Dynamics and a deep understanding and appreciation of our customers, business operations and approach to risk management. His service at General Dynamics combined with his service on other public company boards provides him with a valuable perspective on finance, governance and management matters that face large public companies.