

GENERAL DYNAMICS CORP
Form 10-Q
October 26, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2016

OR

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

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 I.R.S. employer identification no.

2941 Fairview Park Drive, Suite 100

22042-4513

Falls Church, Virginia

Address of principal executive offices

Zip code

(703) 876-3000

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 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 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

304,519,550 shares of the registrant's common stock, \$1 par value per share, were outstanding on October 2, 2016.

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PART I – FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(Dollars in millions, except per-share amounts)	Three Months Ended	
	October 2016	October 4, 2015
Revenue:		
Products	\$4,844	\$ 5,119
Services	2,887	2,875
	7,731	7,994
Operating costs and expenses:		
Products	3,757	4,037
Services	2,434	2,447
General and administrative (G&A)	471	476
	6,662	6,960
Operating earnings	1,069	1,034
Interest, net	(23)	(23)
Other, net	2	2
Earnings from continuing operations before income tax	1,048	1,013
Provision for income tax, net	281	280
Earnings from continuing operations	767	733
Discontinued operations, net of tax benefit of \$46 in 2016 and \$7 in 2015	(84)	—
Net earnings	\$683	\$ 733
Earnings per share		
Basic:		
Continuing operations	\$2.52	\$ 2.31
Discontinued operations	(0.27)	—
Net earnings	\$2.25	\$ 2.31
Diluted:		
Continuing operations	\$2.48	\$ 2.28
Discontinued operations	(0.27)	—
Net earnings	\$2.21	\$ 2.28

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	Nine Months Ended	
(Dollars in millions, except per-share amounts)	October 2, 2016	October 4, 2015
Revenue:		
Products	\$ 14,556	\$ 15,189
Services	8,564	8,471
	23,120	23,660
Operating costs and expenses:		
Products	11,287	11,887
Services	7,224	7,185
G&A	1,417	1,446
	19,928	20,518
Operating earnings	3,192	3,142
Interest, net	(68)	(64)
Other, net	13	5
Earnings from continuing operations before income tax	3,137	3,083
Provision for income tax, net	882	882
Earnings from continuing operations	2,255	2,201
Discontinued operations, net of tax benefit of \$46 in 2016 and \$7 in 2015	(97)	—
Net earnings	\$ 2,158	\$ 2,201
Earnings per share		
Basic:		
Continuing operations	\$ 7.38	\$ 6.79
Discontinued operations	(0.31)	—
Net earnings	\$ 7.07	\$ 6.79
Diluted:		
Continuing operations	\$ 7.25	\$ 6.68
Discontinued operations	(0.31)	—
Net earnings	\$ 6.94	\$ 6.68

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)	Three Months		Nine Months	
	Ended		Ended	
	October 4,	October 4,	October 4,	October 4,
	2016	2015	2016	2015
Net earnings	\$683	\$ 733	\$2,158	\$ 2,201
Gains (losses) on cash flow hedges	102	53	260	(331)
Unrealized losses on securities	(1)	(4)	(5)	(4)
Foreign currency translation adjustments	(43)	(195)	82	(230)
Change in retirement plans' funded status	65	99	191	287
Other comprehensive income (loss), pretax	123	(47)	528	(278)
Provision (benefit) for income tax, net	49	46	133	(25)
Other comprehensive income (loss), net of tax	74	(93)	395	(253)
Comprehensive income	\$757	\$ 640	\$2,553	\$ 1,948

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	(Unaudited)	
	October 2, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,303	\$ 2,785
Accounts receivable	3,502	3,446
Contracts in process	5,213	4,357
Inventories	3,657	3,366
Other current assets	622	617
Total current assets	15,297	14,571
Noncurrent assets:		
Property, plant and equipment, net	3,445	3,466
Intangible assets, net	715	763
Goodwill	11,581	11,443
Other assets	1,630	1,754
Total noncurrent assets	17,371	17,426
Total assets	\$ 32,668	\$ 31,997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 1	\$ 501
Accounts payable	2,276	1,964
Customer advances and deposits	5,249	5,674
Other current liabilities	4,367	4,306
Total current liabilities	11,893	12,445
Noncurrent liabilities:		
Long-term debt	3,885	2,898
Other liabilities	5,573	5,916
Commitments and contingencies (See Note L)		
Total noncurrent liabilities	9,458	8,814
Shareholders' equity:		
Common stock	482	482
Surplus	2,789	2,730
Retained earnings	24,661	23,204
Treasury stock	(13,724)	(12,392)
Accumulated other comprehensive loss	(2,891)	(3,286)
Total shareholders' equity	11,317	10,738
Total liabilities and shareholders' equity	\$ 32,668	\$ 31,997

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Nine Months Ended	
	October 2016	October 4, 2015
Cash flows from operating activities - continuing operations:		
Net earnings	\$2,158	\$ 2,201
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	272	272
Amortization of intangible assets	70	88
Equity-based compensation expense	76	84
Deferred income tax provision	218	88
Discontinued operations, net of tax	97	—
(Increase) decrease in assets, net of effects of business acquisitions:		
Accounts receivable	(52)	254
Contracts in process	(957)	391
Inventories	(288)	(29)
Increase (decrease) in liabilities, net of effects of business acquisitions:		
Accounts payable	305	334
Customer advances and deposits	(574)	(1,508)
Other, net	47	95
Net cash provided by operating activities	1,372	2,270
Cash flows from investing activities:		
Capital expenditures	(244)	(360)
Maturities of held-to-maturity securities	—	500
Proceeds from sales of assets	4	290
Other, net	(42)	(12)
Net cash (used) provided by investing activities	(282)	418
Cash flows from financing activities:		
Purchases of common stock	(1,514)	(2,729)
Proceeds from fixed-rate notes	992	—
Dividends paid	(678)	(655)
Repayment of fixed-rate notes	(500)	(500)
Proceeds from stock option exercises	211	240
Other, net	(39)	(29)
Net cash used by financing activities	(1,528)	(3,673)
Net cash used by discontinued operations	(44)	(31)
Net decrease in cash and equivalents	(482)	(1,016)
Cash and equivalents at beginning of period	2,785	4,388
Cash and equivalents at end of period	\$2,303	\$ 3,372
Supplemental cash flow information:		
Cash payments for:		
Income taxes	\$677	\$ 776
Interest	\$58	\$ 62

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock	Retained	Treasury	Accumulated Other Comprehensive	Total
(Dollars in millions) Par	Surplus	Earnings	Stock	Loss	Shareholders' Equity