

GENERAL DYNAMICS CORP  
Form DEFA14A  
April 15, 2014

**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:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only  
(as permitted by Rule 14a-6(e) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material

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)

Payment of filing fee (check the appropriate box):

No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Date Filed:

April 2014  
Shareholder Outreach on Executive Compensation  
April 2014

April 2014  
Executive Summary  
Focused Strategy Under New CEO in 2013  
Strong Company Performance and Return of Capital to  
Shareholders  
Shareholder Outreach and Response to 2013 Say on Pay Vote  
Compensation Structure Linking Pay to Performance  
Strong, Independent Compensation Governance and Practices  
Balanced Board Tenure and Sound Governance Practices

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April 2014  
Focused Strategy Under New CEO  
New  
Leadership  
with  
a  
Refined  
Focus.  
Phebe  
Novakovic

became  
Chair  
and CEO on January 1, 2013, articulating a focus on getting *Back to Basics*  
Strong,  
Improving  
Performance.  
By  
highlighting  
operational  
effectiveness  
and  
cost  
management,  
each  
of  
the  
four  
business  
groups

Aerospace,  
Information Systems and Technology, Combat Systems and Marine  
Systems

demonstrated strong and improving performance in 2013  
Driving  
Growth  
and  
Value.  
The  
company  
achieved  
a  
direct,  
positive  
result  
on shareholder value by driving performance in three key areas:  
Increasing Return  
on Invested Capital  
Expanding Margins  
Managing for Cash  
Flow  
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April 2014  
Focus  
on  
Driving  
Shareholder  
Value.  
Strong  
long-term  
stock  
performance

combined  
with

a  
history of increasing dividends and share buybacks  
2013

Operating  
Performance.  
Significant  
improvement  
through

a  
renewed  
focus  
on  
margin

expansion, cash generation and ROIC

With no acquisitions in 2013, free cash flow was returned to shareholders in the form of dividends  
and share repurchases

Announced in January 2014 an accelerated share repurchase program to repurchase 11.4 million  
shares

Solid Performance and Return of Capital  
to Shareholders

Strong Total Shareholder Return in 2013

Increase in Dividend Payments

4

\$50

\$60

\$70

\$80

\$90

\$100

\$0.38

\$0.42

\$0.47

\$0.51

\$0.56

\$0.62

2009

2010

2011

2012

2013

2014



April 2014

Shareholder Outreach and Response to  
2013 Say on Pay Vote

In response to our say on pay vote, our Compensation Committee Chair  
and  
members  
of  
the  
management  
team

engaged  
directly  
with  
several  
of  
our  
largest shareholders and took action in response to address feedback  
Shareholder Feedback  
Company Response  
Lengthen  
the performance measurement period for the  
performance-based long-term incentives to more than one  
year  
Performance Restricted Stock Units (PRSUs) will be subject to a three-  
year performance period, instead of a one-year period starting with 2015  
grants  
Focus  
on the alignment of compensation with company  
performance and shareholder value drivers  
Implemented and disclosed scorecards for each NEO with specific,  
measurable goals used to drive compensation  
Demonstrate  
a link between executive compensation and  
performance, and how performance metrics relate to total  
shareholder return  
Enhanced CD&A disclosure to show the connection between the  
program's structure and performance (primarily through the use of equity),  
and by disclosing realizable pay relative to company stock performance  
Disclose  
realizable  
pay  
to  
help  
shareholders  
better  
understand the alignment of compensation with company  
performance  
Added new disclosure showing 3-year realizable pay for the CEO,  
demonstrating that the program closely aligns executive compensation  
with company performance  
Clarify  
disclosure  
regarding  
specific  
components  
of  
the  
program  
New CD&A disclosure that more clearly discusses each component of  
compensation and the well-disciplined process used to set and grant

compensation

Carefully

consider

shareholder

dilution

and

annual

burn

rate

when granting equity compensation

Given the company's higher use of equity based compensation relative to other companies, the dilution and burn rate is generally slightly higher on a relative basis. The Committee believes this use of equity more closely links executive and shareholder interests

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April 2014  
Compensation Structure Linking Pay to  
Performance  
Annual Incentives  
Long-Term Incentives  
Short Term Pay  
Long Term Pay  
Cash  
Performance RSUs (25%)  
Restricted Stock (25%)

Stock Options (50%)  
Base Salary  
Cash  
Key  
Elements of  
Pay  
Performance  
Metrics  
Affecting  
Ultimate Value  
Fixed  
compensation  
to attract and  
retain NEOs  
Earnings from Continuing  
Operations  
Sales  
Business Group  
Performance  
Free Cash Flow from  
Operations  
Stock Price  
Indexed to Total Cash  
Compensation  
Return on Invested Capital  
(Moving to 3-Year Measurement)  
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April 2014

Aligning Pay with Performance During  
Our Senior Leadership Transition

Phebe Novakovic became CEO in 2013 and began building her management team; SVP and CFO

L. Hugh Redd retired on Dec. 31, 2013 as part of this transition

Mr. Redd served through all of 2013 but was not employed by the company in March 2014, which is  
when 2013 long-term incentive awards were granted in recognition of 2013 and prior years

performance

Executives

not

employed  
at  
the  
company  
at  
the  
time  
equity  
grants  
are  
made  
are  
not  
entitled  
to  
such  
grants

To compensate Mr. Redd for agreeing to retire on Dec. 31, precluding his receipt of an equity grant in 2014, the company agreed to provide a pension service credit

The \$2 million incremental value of the service credit approximately correlates to the estimated amount of the grant date value of the equity compensation that Mr. Redd would have been entitled to had he remained with the company, given his bonus and salary

The Compensation Committee believes this form of compensation links Mr. Redd's pay with performance, while recognizing his willingness to support the leadership transition

The company has not provided service credits to any other current executive officers. In light of concerns raised about the use of pension service credits, the company will not provide service credits to any named executive officers going forward

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April 2014

Strong, Independent Compensation

Governance and Practices

100% independent Compensation Committee

Independent compensation consultant reporting to the Compensation Committee

Strong link between pay and performance with 92% of CEO and 81% of NEO compensation variable

Market-leading stock ownership requirements of 15x base salary for CEO and 10x for the other NEOs



No employment agreements with NEOs

Double-trigger change-in-control arrangements

Adopted a clawback policy

Anti-hedging policy in place and adopted anti-pledging policy

Limited perquisites

Eliminated excise tax gross-ups

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April 2014

Balanced Board Tenure and Sound  
Governance Practices

Director Tenure

We have a well-balanced board with  
a mix of long-term experience and  
fresh perspective, each with a  
diverse range of backgrounds, talent,  
skill and expertise that are valuable  
in the board's responsibility and

oversight role

100% committee independence

Right to call special meetings (10% individual; 25% group of shareholders)

Action by written consent

Robust independent lead director role

Majority voting

Annual elections

No poison pill in place

Qualified directors with a deep understanding of the company's core business areas and complex issues and risks facing public company boards

Governance Practices

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Directors

4

Directors

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Directors