

GENERAL DYNAMICS CORP
Form 11-K
June 28, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

**FOR ANNUAL REPORTS OF EMPLOYEE STOCK PURCHASE, SAVINGS AND SIMILAR PLANS
PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number 1-3671

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

GENERAL DYNAMICS CORPORATION

2941 Fairview Park Drive, Suite 100

Falls Church, Virginia 22042-4513

Table of Contents

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

Financial Statements

December 31, 2012 and 2011

(With Report of Independent Registered Public Accounting Firm Thereon)

Table of Contents

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

Table of Contents

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Statements of Net Assets Available for Benefits as of December 31, 2012 and 2011</u>	2
<u>Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2012</u>	3
<u>Notes to Financial Statements</u>	4 16
<u>Schedule H, Line 4a Schedule of Delinquent Participant Contributions for the year ended December 31, 2012</u>	17

Table of Contents

Report of Independent Registered Public Accounting Firm

The Participants and Administrator of the General Dynamics Corporation 401(k) Plan 4.5:

We have audited the accompanying statements of net assets available for benefits of the General Dynamics Corporation 401(k)

Plan 4.5 (the Plan) as of December 31, 2012 and 2011, and the related statement of changes in net assets available for benefits for the year ended December 31, 2012. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the General Dynamics Corporation 401(k) Plan 4.5 as of December 31, 2012 and 2011, and the changes in its net assets available for benefits for the year ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule Schedule H, Line 4a Schedule of Delinquent Participant Contributions for the year ended December 31, 2012, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

McLean, Virginia

June 28, 2013

Table of Contents**GENERAL DYNAMICS CORPORATION****401(K) PLAN 4.5**

Statements of Net Assets Available for Benefits

December 31, 2012 and 2011

	2012	2011
Assets:		
Investments in Master Trust at fair value (note 4)	\$ 1,755,528,922	2,139,791,542
Notes receivable from participants	60,535,427	71,071,123
Contributions receivable employer	5,843,202	13,261,042
Contributions receivable participant	4,308,728	1,835,249
Total assets	1,826,216,279	2,225,958,956
Liabilities:		
Accrued administrative expenses	309,929	213,211
Net assets reflecting all investments at fair value	1,825,906,350	2,225,745,745
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(10,977,542)	(10,110,049)
Net assets available for benefits	\$ 1,814,928,808	2,215,635,696

See accompanying notes to financial statements.

Table of Contents**GENERAL DYNAMICS CORPORATION****401(K) PLAN 4.5**

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2012

Additions to net assets attributed to:	
Participation in income of Master Trust (note 4)	\$ 154,952,662
Contributions:	
Rollovers	9,212,137
Participant	129,025,486
Employer	65,413,814
Total contributions	203,651,437
Total additions	358,604,099
Deductions from net assets attributed to:	
Benefits paid to participants (note 7)	135,362,572
Administrative expenses	1,764,773
Total deductions	137,127,345
Net increase prior to transfers	221,476,754
Transfers in from other plan (note 1)	225,774,981
Transfers out to other plan (note 1)	(847,958,623)
Net transfers out of Plan	(622,183,642)
Net assets available for benefits:	
Beginning of year	2,215,635,696
End of year	\$ 1,814,928,808

See accompanying notes to financial statements.

Table of Contents

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

Notes to Financial Statements

December 31, 2012 and 2011

(1) Plan Description

The following description of the General Dynamics Corporation 401(k) Plan 4.5 (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions. Effective December 31, 2012, the Plan name was changed to General Dynamics Corporation 401(k) Plan 4.5 from General Dynamics Corporation Savings and Stock Investment Plan (Plan 4.5).

(a) General

The Plan is a defined contribution plan covering eligible employees of General Dynamics Corporation and its subsidiaries (the Company or the Plan Sponsor). Employees subject to a collective bargaining agreement are not eligible to participate in this Plan. The Plan is one of four plans that comprise the General Dynamics Corporation 401(k) Plan Master Trust Agreement (Master Trust). Effective December 31, 2012, the name of the Master Trust was changed to the General Dynamics Corporation 401(k) Plan Master Trust Agreement from the General Dynamics Corporation Savings and Stock Investment Plan Master Trust. Effective January 1, 2012, certain participants of the General Dynamics Corporation 401(k) Plan 3.0 became participants of the Plan. In addition, certain participants of the Plan became participants of the General Dynamics Corporation 401(k) Plan 3.0. In connection with the transfer of participants, there were transfers into the Plan of \$225,774,981 and transfers out of the Plan of \$847,958,623.

(b) Plan Administration

Prior to December 31, 2012, The Northern Trust Company (TNT) held the Plan's assets as the Plan's trustee and Hewitt Associates, LLC (Aon Hewitt) was the Plan's recordkeeper. Effective December 31, 2012, Fidelity Management Trust Company (Fidelity) became the Plan's Trustee and Fidelity Workplace Services, LLC became the Plan's recordkeeper. As a result of the change in trustee, the investments of the Master Trust were transferred from TNT to Fidelity on December 28, 2012.

(c) Contributions

Participants are eligible to participate in the Plan upon hire. Contribution percentages range from 1% to 50% of eligible compensation on a before-tax or after-tax basis (Roth Contributions), up to the statutory limits defined by the Internal Revenue Code (IRC). The Plan has an employer match rate of up to 100% of the first 3% of eligible compensation contributed to the Plan and 50% of the next 3% of eligible compensation contributed to the Plan. The Plan is intended to be a safe-harbor plan as defined in the IRC.

Participants at certain business units that do not accrue credited service under a Company-sponsored defined benefit pension plan may be eligible to receive an employer profit-sharing contribution based on a percentage of their eligible compensation. At December 31, 2012 and 2011, \$1,353,242 and \$8,186,746 of such profit-sharing contributions, respectively, were included as a receivable in the Plan's financial statements.

Table of Contents

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

Notes to Financial Statements

December 31, 2012 and 2011

(d) Participant Accounts

Each participant directs his or her contributions to be invested in various funds. Changes to investment elections can be made according to rules set by the Plan Sponsor. Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and (b) Plan earnings, less an allocation of administrative expenses. The benefit to which a participant is entitled is the vested balance of his or her account.

(e) Vesting

Participants' contributions and Company matching contributions made on or subsequent to January 1, 2007 are always 100% vested. Company profit-sharing contributions, if applicable, are subject to a three year cliff vesting schedule.

(f) Notes Receivable from Participants

The Plan permits active participants to borrow the lesser of \$50,000 less the highest outstanding note receivable (or participant loans or loan) balance during the last 12 months, or 50% of the vested amount in their accounts (subject to limits defined in the Plan document and by the IRC). Loans are secured by the remaining balance in the participants' accounts. Participants are required to repay the loan by regular payroll deductions over a period of up to five years. The Plan also offers primary residence loans (with terms up to 20 years). Loans are issued at the U.S. prime rate of interest. Participant loans outstanding at December 31, 2012, bear interest at rates that range from 3.20% to 9.53%. Participant loans are recorded at amortized cost, which is the remaining unpaid principal balance plus any accrued but unpaid interest.

(g) Payment of Benefits

On termination of service, a participant (or designated beneficiary) may elect to (a) receive a lump-sum amount equal to the value of the participant's vested interest in his or her account, (b) roll over the value of the participant's vested interest in his or her account into another qualified plan, (c) receive annual or monthly installment payments over a specified period or in specified amounts, or (d) receive a partial distribution of his or her total account balance. Active participants may also receive hardship withdrawals under the provisions of the IRC in a lump-sum payment. Active participants may be eligible to receive in-service or hardship withdrawals or withdrawals allowed under the IRC for participants that reach age 59^{1/2}.

(h) Forfeited Accounts

During the year ended December 31, 2012, participants' forfeited nonvested accounts totaled \$535,261. These amounts were used to reduce employer contributions. Participants' previously forfeited account balances were restored to \$19,706 for those employees who re-joined the Plan within the parameters of the Plan documents. The Plan did not have a forfeiture balance at December 31, 2012.

Table of Contents

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

Notes to Financial Statements

December 31, 2012 and 2011

(i) Administrative Expenses

The Master Trust generally pays the administrative expenses of the Plan. The Plan document provides that the Company may reimburse the Plan for administrative expenses. The Company did not reimburse any administrative expenses in 2012.

Company employees perform certain administrative functions that are not reimbursed by the Master Trust. The Plan document provides that the Company is entitled to reimbursement for certain costs incurred on behalf of the Plan. The Company did not seek reimbursement for these costs in 2012.

Administrative expenses may be specifically identified to the four plans that participate in the Master Trust, or these expenses may be attributable to the Master Trust in general. Specifically identified expenses of the Plan for 2012 were \$1,764,773 and are reflected as administrative expenses in the Statement of Changes in Net Assets Available for Benefits. General expenses (primarily investment management and trustee fees) of the Master Trust in 2012 were \$2,196,984. A portion of these expenses are allocated to the Plan using the percentage of the Plan's interest in the net assets of the Master Trust. For the year ended December 31, 2012, approximately \$460,000 of general expenses were allocated to the Plan and included as a reduction of participation in income of the Master Trust.

(j) Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared under the accrual basis of accounting.

(b) Investment Valuation and Income Recognition

The Plan's investments are stated at fair value with the exception of fully benefit-responsive investment contracts (referred to herein as guaranteed investment contracts or GICs), which are adjusted from fair value to contract value.

Purchases and sales of investments are recorded on the trade date. Investment income consists of dividend income, interest income and net appreciation (depreciation) in the fair value of investments. Dividends are recognized on the ex-dividend date, the date on which an entity or an individual must own the stock to receive the pending dividend. Interest income is recorded on an accrual basis. Net appreciation (depreciation) includes the gains and losses on investments bought and sold as well as held during the year.

Table of Contents

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

Notes to Financial Statements

December 31, 2012 and 2011

(c) Payment of Benefits

Benefits are recorded when paid.

(d) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(3) Tax Status

The Internal Revenue Service (IRS) issued a favorable determination letter on July 8, 2010, indicating that the Plan is a qualified plan under Section 401(a) of the IRC. The Plan is exempt from federal income tax under Section 501(a) of the IRC. Although the Plan has been amended subsequent to the date of the latest determination from the IRS, the Plan Sponsor and the Plan's tax counsel believe the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. The favorable determination letter expired on January 31, 2012. Prior to expiration, the Plan applied for a new determination letter and has not yet received a favorable response from the Internal Revenue Service.

U.S. GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that, as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions. There are currently no audits in progress for any tax periods. Under the IRS statute of limitations, the Plan is no longer subject to income tax examinations for years prior to 2009.

(4) Investments

(a) General

The Plan's investments are held by the Master Trust, which was established for the investment of the Plan's assets and the assets of the General Dynamics Corporation 401(k) Plan 3.0, the General Dynamics Corporation 401(k) Plan 5.0, and the General Dynamics Corporation 401(k) Plan for Represented Employees, collectively, the Plans. Each of the Plans has a pro rata interest in the Master Trust. Net assets and net participation in the net income of the Master Trust are allocated to the Plans according to each Plan's participants' investment elections and earnings thereon. At December 31, 2012 and 2011, the Plan's interest in the net assets of the Master Trust was approximately 21% and 28%, respectively.

Table of Contents**GENERAL DYNAMICS CORPORATION****401(K) PLAN 4.5**

Notes to Financial Statements

December 31, 2012 and 2011

The following table presents the investments of the Master Trust as of December 31, 2012 and 2011:

	2012	2011
General Dynamics Corporation common stock+	\$ 2,127,670,462	2,172,426,079
Equity securities*	631,654,975	267,867,992
Guaranteed investment contracts (GICs)*	2,665,924,608	2,373,094,716
Units of collective trusts (CCTs)+	2,907,186,787	2,036,282,387
Units of registered investment companies (RICs)		251,790,963
Fixed-income securities*		730,082,948
Cash and cash equivalents, other	19,094,252	60,029,890
Securities on loan^		967,180,843
Total investments at fair value	8,351,531,084	8,858,755,818
Notes receivable from participants	188,631,630	180,843,078
Total assets	8,540,162,714	9,039,598,896
Pending trade sales, net		89,508,012
Liability for collateral deposits		988,216,116
Total liabilities		1,077,724,128
Net assets of Master Trust before adjustment to contract value	8,540,162,714	7,961,874,768
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(60,274,062)	(45,230,625)
Net assets of Master Trust	\$ 8,479,888,652	7,916,644,143

+ Participants may direct their investments into the General Dynamics Stock Fund. The General Dynamics Stock Fund consisted solely of General Dynamics common stock (Company stock) as of December 31, 2012. As of December 31, 2011, the General Dynamics Stock Fund consisted of \$2,172,426,079 of General Dynamics common stock and \$43,548,492 invested in collective trusts which is shown above under units of collective trusts.

* There was no collateral on loaned securities at December 31, 2012. Balance contained collateral on loaned securities in the amount of \$21,029,679 for equity securities, \$746,202,831 for GICs, and \$220,983,606 for fixed-income securities at December 31, 2011.

^ Securities on loan included \$20,435,981 of equity securities, \$730,221,042 of GICs and \$216,523,820 of fixed-income securities at December 31, 2011.

Table of Contents**GENERAL DYNAMICS CORPORATION****401(K) PLAN 4.5**

Notes to Financial Statements

December 31, 2012 and 2011

The Plans' interests in the Master Trust's net assets at December 31, 2012 and 2011, were as follows:

	2012	2011
General Dynamics Corporation 401(k) Plan 3.0	\$ 3,140,885,749	2,399,361,617
General Dynamics Corporation 401(k) Plan 4.5	1,805,086,807	2,200,752,616
General Dynamics Corporation 401(k) Plan 5.0	2,490,114,878	2,328,245,649
General Dynamics Corporation 401(k) Plan for Represented Employees	1,043,801,218	988,284,261
Total	\$ 8,479,888,652	7,916,644,143

Net investment income for the Master Trust for the year ended December 31, 2012, consisted of the following:

Net appreciation on equity securities other than Company stock	\$ 44,104,350
Net appreciation on Company stock	86,133,315
Net appreciation in collective trust funds	281,444,550
Net appreciation in registered investment companies	48,140,097
Net appreciation on fixed income securities	16,868,036
Interest income on GICs	52,588,378
Interest income on fixed income securities	21,486,643
Interest on notes receivable from participants	5,915,028
Dividends on Company stock	80,905,112
Dividends other than on Company stock	4,726,555
Net interest earned on securities lending transactions	1,298,825
Administrative expenses	(2,196,984)
Total	\$ 641,413,905

Table of Contents**GENERAL DYNAMICS CORPORATION****401(K) PLAN 4.5**

Notes to Financial Statements

December 31, 2012 and 2011

The Plans' interests in the Master Trust's investment income for the year ended December 31, 2012, were as follows:

General Dynamics Corporation 401(k) Plan 3.0	\$ 245,875,989
General Dynamics Corporation 401(k) Plan 4.5	154,952,662
General Dynamics Corporation 401(k) Plan 5.0	172,906,709
General Dynamics Corporation 401(k) Plan for Represented Employees	67,678,545
Total	\$ 641,413,905

The Master Trust's investments that represented 5% or more of the Master Trust's ending net assets (\$423,994,433 and \$395,832,207 as of December 31, 2012 and 2011, respectively) were as follows:

	2012	2011
General Dynamics Corporation common stock (at fair value)	\$ 2,127,670,462	2,172,426,079
Guaranteed investment contracts (at contract value):		
Met Life 25154	\$ 1,206,751,276	1,178,805,814
Met Life 25155	1,156,842,349	1,132,214,394
Investments in collective trusts (at fair value):		
Collective Daily Russell 2000 Equity Fund	\$	478,771,782
Collective Daily S&P 500 Equity Fund		1,282,788,209
BTC US Debt Index Non-Lending Fund F	666,716,465	
Northern Trust S&P 500 Non- Lending Fund	1,132,558,169	
Northern Trust Extended Market Index Fund	552,167,464	

(b) Guaranteed Investment Contracts

A portion of the assets in the Master Trust are invested in fully benefit-responsive investment contracts with MetLife Insurance Company (MetLife). MetLife's credit rating from Standard & Poor's at December 31, 2012 was AA-. The assets of these GICs are invested in a MetLife account, and MetLife guarantees the principal and accrued interest, based on contractually defined interest rates, for participant-initiated withdrawals as long as the contract remains active. Interest is credited to the contract at interest rates that reflect the performance of the underlying portfolio. MetLife resets the interest rate semi-annually based on the market value of the portfolio and the guaranteed value over the weighted average duration of the investments. Participants will receive the principal and accrued interest upon withdrawal for events such as transfers to other Plan investment options or payments for retirement, termination of employment, disability, death and in-service withdrawals as permitted by the Plan.

Table of Contents

GENERAL DYNAMICS CORPORATION

401(K) PLAN 4.5

Notes to Financial Statements

December 31, 2012 and 2011

Certain events, including premature termination of the GICs, plant closings, layoffs, plan terminations, bankruptcy, mergers and early retirement incentives, could limit the ability of the Plan to transact open investments at contract value. The occurrence of these events is not considered probable.

The investments shown in the accompanying Statements of Net Assets Available for Benefits include these fully benefit-responsive investment contracts at fair value with a corresponding adjustment to reflect these investments at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay Plan benefits, excluding the effect o