

GENERAL DYNAMICS CORP
Form DEF 14A
March 23, 2017
Table of Contents

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):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

Table of Contents

March 23, 2017

Dear Fellow Shareholder:

We are pleased to present you with the 2017 General Dynamics Proxy Statement. We remain steadfast in our commitment to sound corporate governance practices and maintaining a strong link between executive pay and company performance in our executive compensation program. The details of our governance and executive compensation programs are presented throughout this Proxy Statement and referenced documents.

Shareholder engagement remains a key focus for our company to ensure we are aware of your top priorities. Over the past year, we have spoken with shareholders about a number of critical topics, including company strategy, changes to our executive compensation program and our corporate governance practices. Overall, we continue to be encouraged that 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. The addition of Peter Wall, who joined our Board in August 2016, further strengthens the Board's expertise in global security issues and understanding of key customer concerns. Catherine Reynolds, who is nominated for election to the Board at the Annual Meeting, will bring to the Board additional financial and business expertise as well as public company governance experience. Through these additions we will continue to ensure that the tenure of our directors remains balanced.

2016 was a year of continuing improvement and accomplishment across our company. Our performance was strong with growth in many financial metrics, including earnings, margin, return on sales, return on invested capital and earnings per share, as compared with 2015, which was also an outstanding year for operating performance. With total backlog of nearly \$60 billion, our company remains well-positioned for sales and earnings growth in the coming years as we execute on our order book.

On behalf of the Board of Directors, I invite you to attend the 2017 Annual Meeting of Shareholders and, even if you are not able to attend, encourage you to vote by proxy. 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

Table of Contents

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Important Notice Regarding the Availability of Proxy Materials

for the Shareholder Meeting to Be Held on May 3, 2017

The Proxy Statement and 2016 Annual Report are Available at

www.generaldynamics.com/2017proxy

You are invited to our Annual Meeting of Shareholders of General Dynamics Corporation, a Delaware corporation, on Wednesday, May 3, 2017, at 9 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 11 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 2017 (proposal 2);

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

an advisory vote on the frequency of future advisory votes on executive compensation (proposal 4);

the approval of the General Dynamics Corporation Amended and Restated 2012 Equity Compensation Plan (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 5.

The Board of Directors unanimously recommends for proposal 4 that you vote to hold future executive compensation advisory votes EVERY YEAR.

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

The Board of Directors set the close of business on March 6, 2017, 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.

Edgar Filing: GENERAL DYNAMICS CORP - Form DEF 14A

A copy of the 2016 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 23, 2017

General Dynamics 2017 Proxy Statement

Table of Contents

Table of Contents

<u>Proxy Summary</u>	1
<u>Voting Matters and Board Recommendations</u>	1
<u>A Commitment to Sound Corporate Governance</u>	2
<u>Shareholder Engagement</u>	4
<u>Performance and Executive Compensation Highlights</u>	4
<u>Election of the Board of Directors of the Company</u>	5
<u>Governance of the Company</u>	13
<u>Our Commitment to Strong Corporate Governance</u>	13
<u>Our Culture of Ethics</u>	13
<u>Board Leadership Structure</u>	14
<u>Director Independence</u>	15
<u>Board Meetings, Business Unit Visits and Attendance</u>	16
<u>Executive Sessions of the Board</u>	16
<u>Board Committees</u>	16
<u>Risk Oversight</u>	18
<u>Director Orientation and Continuing Education</u>	19
<u>Board and Committee Performance Self-Assessments</u>	19
<u>Communications with the Board</u>	19
<u>Related Person Transactions Policy</u>	20
<u>Director Compensation</u>	21
<u>Advisory Vote on the Selection of Independent Auditors</u>	23
<u>Audit Committee Report</u>	24
<u>Advisory Vote to Approve Executive Compensation</u>	25
<u>Advisory Vote on the Frequency of Future Executive Compensation Advisory Votes</u>	25
<u>Compensation Discussion and Analysis</u>	26
<u>Executive Summary</u>	27
<u>Executive Compensation Goals and Objectives</u>	35
<u>Components of Executive Compensation</u>	35
Table of Contents	6

<u>The Compensation Process</u>	42
<u>Other Considerations</u>	47
<u>Executive Compensation</u>	49
<u>Compensation Committee Report</u>	60
<u>Security Ownership of Management</u>	61
<u>Security Ownership of Certain Beneficial Owners</u>	62
<u>Equity Compensation Plan Information</u>	62
<u>Approval of the General Dynamics Corporation Amended and Restated 2012 Equity Compensation Plan</u>	63
<u>Information Regarding the Annual Meeting and Voting</u>	71
<u>Other Information</u>	74
<u>Appendix A – General Dynamics Corporation Amended and Restated 2012 Equity Compensation Plan</u>	A-1
<u>Appendix B – Use of Non-GAAP Financial Measures</u>	B-1

General Dynamics 2017 Proxy Statement

Table of Contents

PROXY STATEMENT

The Board of Directors of General Dynamics Corporation is soliciting your proxy for the Annual Meeting of Shareholders to be held on May 3, 2017, at 9 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 23, 2017, 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: Advisory Vote on the Selection of Independent Auditors	FOR	See page 23 for details
Proposal 3: Advisory Vote to Approve Executive Compensation	FOR	See page 25 for details

Proposal 4:

Advisory Vote on the Frequency of Future
Executive Compensation Advisory Votes

EVERY YEAR See page 25 for details

Proposal 5:

Approval of the General Dynamics Corporation
Amended and Restated 2012 Equity Compensation Plan

FOR See pages 63 through 70 for details

ANNUAL MEETING INFORMATION

Date Wednesday, May 3, 2017

Time 9 a.m. local time

Location 2941 Fairview Park Drive, Falls Church, Virginia

How to Vote

By Internet Access www.ProxyVote.com.

Edgar Filing: GENERAL DYNAMICS CORP - Form DEF 14A

By Telephone Call 1-800-690-6903 if you are a registered holder. If you are a beneficial holder, call the phone number listed on your voter instruction form.

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 71.

General Dynamics 2017 Proxy Statement 1

Table of Contents

Proxy Summary

2017 BOARD OF DIRECTORS NOMINEES

DIRECTOR NOMINEES			
Nominee	Director		Primary Occupation
	Since	Independent	
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
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	Former President and CEO, Tower International

Phebe N. Novakovic 2012 Chairman and CEO, General Dynamics

William A. Osborn 2009 Yes Former Chairman and CEO, Northern Trust Corporation

Catherine B. Reynolds Yes Chairman and CEO, EduCap

Laura J. Schumacher 2014 Yes EVP, External Affairs and General Counsel, AbbVie

Peter A. Wall 2016 Yes Retired General, British Army

* *Lead Director*

Balanced Director Tenure

(Current Directors)

Strong Director Engagement

(2016 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. The General Dynamics 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.

2 General Dynamics 2017 Proxy Statement

Table of Contents

Proxy Summary

Highlights of our governance practices include:

	Governance Practice	For more information
Stock Ownership	<i>Market-leading stock ownership requirements</i> 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 shares of our Common Stock having a value of at least 8 times the annual retainer.	P. 47
	We <i>prohibit hedging and pledging</i> of our Common Stock by directors and executive officers.	P. 47
	9 of our 11 director nominees are <i>independent</i> . 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 <i>independent Lead Director</i> with a robust set of responsibilities is elected annually by the Board and provides additional independent oversight of senior management and board matters.	P. 14
	Our directors are <i>elected annually</i> based on a <i>majority voting standard</i> for uncontested elections. We have a <i>resignation policy</i> if a director fails to receive a majority of votes cast.	P. 73
	Our directors <i>attended on average more than 97 percent of board and committee meetings</i> in 2016 with no director attending less than 86 percent.	P. 16

	Our non-management directors meet in <i>executive session</i> , without management present, following each regularly scheduled meeting, presided by the Lead Director.	P. 16
	Our directors are restricted in the number of other boards on which they may serve to <i>prevent overboarding</i> .	Corporate Governance Guidelines*
	Our <i>related person transactions policy</i> ensures appropriate Board review of related person transactions.	P. 20
	Annual <i>Board and committee self-assessments</i> monitor the performance and effectiveness of the Board and its committees.	P. 19
	Diligent <i>Board oversight of risk</i> is a cornerstone of the company's risk management program.	P. 18
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.	Standards of Business Ethics and Conduct**
		Codes of Ethics**
	A <i>Corporate Sustainability Report</i> discusses our ethos, our commitment to our stakeholders and communities and our commitment to diversity and inclusion.	Corporate Sustainability Report**
	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
Shareholder Rights	We have a strong corporate commitment to respect the dignity, <i>human rights</i> and autonomy of others.	Corporate Sustainability Report**
	Our shareholders have the ability to nominate director candidates and have those nominees	Bylaws*

included in our proxy statement, subject to meeting the requirements in our Bylaws, a shareholder right known as *proxy access*.

We *do not have a shareholder rights plan*, or poison pill; any future rights plan must be submitted to shareholders.

Our shareholders have the right to request a *special meeting* of shareholders.

Corporate Governance Guidelines*

Bylaws*

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

**Our Standards of Business Ethics and Conduct, Codes of Ethics and Corporate Sustainability Report are available on our website at www.gd.com/Responsibility.

Table of Contents

Proxy Summary

SHAREHOLDER ENGAGEMENT

Our Board is Committed to Robust Shareholder Engagement. Our shareholder engagement program allows us to discuss corporate governance and executive compensation matters with shareholders, as well as other items of interest to our shareholders. As part of our ongoing program, in 2016 we reached out to holders representing over 65 percent of our outstanding common stock. 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. In 2016, we continued our long-term focus on operational excellence, resulting in positive operating leverage, strong earnings and record-setting margin. We deployed capital prudently through continued investment in the future growth areas of our company and by returning 1.6 times our free cash flow from operations to shareholders in the form of dividends and share repurchases. In addition to our strong operating performance, we added new contracts to backlog, creating the opportunity for strong execution well into the future.

2016 Financial Highlights

Earnings from Continuing Operations	\$3.1 billion	Highest in company history
Operating Margin	13.7%	Highest in company history
Free Cash Flow from Operations*	\$1.8 billion	Exceeded company expectations
Return on Invested Capital*	18.1%	70 basis points higher than 2015
Quarterly Dividends	\$0.76 per share	19th consecutive year with a dividend increase
Order Backlog	\$59.8 billion	Robust backlog provides stability well into the future

* See Appendix B for a discussion of these non-GAAP measures and reconciliation to their most directly comparable GAAP measures.

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 greater than 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.

Commitment to Continuous Assessment of our Compensation Program. As a result of our ongoing conversation with shareholders, we made several changes to our compensation program in 2016 and early 2017. These changes are designed to better align with market best practices and provide for increased transparency and alignment between senior management and shareholders. In 2016, we eliminated all legacy excise tax gross-ups and established a target bonus program for our named executive officers which provides for a cap on bonuses paid to named executive officers. In early 2017, we established market-based long-term incentive (LTI) guidelines for our named executive officers.

4 General Dynamics 2017 Proxy Statement

Table of Contents

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.

The nominees for election to the Board 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.

Table of Contents

Election of Directors

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 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 NOMINEES 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
Nicholas D. Chabraja						
James S. Crown						
Rudy F. deLeon						
John M. Keane						
Lester L. Lyles						
Mark M. Malcolm						
Phebe N. Novakovic						
William A. Osborn						

Catherine B. Reynolds

Laura J. Schumacher

Peter A. Wall

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>
--	--	---	---	--	--	--

Table of Contents

Election of Directors

2017 Director Nominees. The following 11 nominees are standing for election to the Board of Directors at the Annual Meeting. 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.

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. Chabraja 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: 74

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.

JAMES S. CROWN

Lead Director since May 2010

President of Henry Crown and Company since 2002; Vice President of Henry Crown and Company, 1985 to 2002

LEAD DIRECTOR

Mr. Crown currently serves as a director of J.P. Morgan Chase & Co. He served as a director of Sara Lee Corporation within the past five years.

COMMITTEES:

Audit

Key Attributes/Skills/Expertise: As the longest-serving member of our Board and a significant shareholder, Mr. Crown has an abundance of knowledge regarding General Dynamics and our history. As president of Henry Crown and Company, a private investment firm with diversified interests, Mr. Crown has broad experience

Compensation	in business management and capital deployment strategies. His many years of service as a director of our company and two other large public companies provide him with a deep understanding of the roles and responsibilities of a board of a public company.
Nominating and Corporate Governance	

DIRECTOR SINCE MAY
1987

AGE: 63

General Dynamics 2017 Proxy Statement 7

Table of Contents

Election of Directors

RUDY F. DELEON

Senior Fellow with the Center for American Progress since 2007

Senior Vice President of The Boeing Company, 2001 to 2006

Deputy Secretary of Defense, 2000 to 2001; Undersecretary of Defense for Personnel and Readiness, 1997 to 2000

COMMITTEES:

Undersecretary of the U.S. Air Force, 1994 to 1997

Compensation

Finance and Benefit Plans

**DIRECTOR SINCE
SEPTEMBER 2014**

AGE: 64

Key Attributes/Skills/Expertise: Mr. deLeon's experience as the second-highest ranking civilian official in the U.S. Department of Defense and as a foreign policy and military advisor give him a keen understanding of the complexities of the U.S. military and the defense industry. His experience in government, combined with his leadership at The Boeing Company as a senior vice president leading all U.S. federal, state and local government liaison operations, provide him with a deep understanding of the aerospace and defense industry, enabling him to serve General Dynamics with valuable perspectives on the business.

JOHN M. KEANE

Retired General, U.S. Army; Vice Chief of Staff of the Army, 1999 to 2003

Chairman of the Institute for the Study of War since 2007

President of GSI, LLC (consulting) since 2004

COMMITTEES:

Senior Partner of SCP Partners (private equity), 2009 to 2012

Finance and Benefit Plans

Managing Director of Keane Advisors, LLC (private equity), 2005 to 2009

Nominating and Corporate
Governance

Mr. Keane served as a director of MetLife, Inc. within the past five years.

**DIRECTOR SINCE
FEBRUARY 2004**

AGE: 74

Key Attributes/Skills/Expertise: Prior to retiring from the U.S. Army at the rank of General, Mr. Keane served as Vice Chief of Staff of the Army. As a senior officer, Mr. Keane managed significant operating budgets and addressed complex operational and strategic issues. Mr. Keane's astute appreciation for the complexities of the U.S. military and the defense industry, combined with his demonstrated

leadership and strategic skills, make him a valuable advisor to our aerospace and defense businesses. Mr. Keane has gained a strong understanding of public company governance and operations through his service on three public company boards.

8 General Dynamics 2017 Proxy Statement

Table of Contents

Election of Directors

LESTER L. LYLES

Retired General, U.S. Air Force; Commander, Air Force Materiel Command, 2000 to 2003; Vice Chief of Staff of the Air Force, 1999 to 2000

Chairman of the Board of United States Automobile Association since November 2012 and Vice Chairman, 2008 to 2012

COMMITTEES:

Mr. Lyles currently serves as a director of KBR, Inc. He served as a director of Precision Castparts Corp., a former public company, within the past five years.

Audit

Nominating and Corporate
Governance

Key Attributes/Skills/Expertise: Prior to retiring from the U.S. Air Force at the rank of General, Mr. Lyles served as Commander of the Air Force Materiel Command and Vice Chief of Staff of the U.S. Air Force. In these positions, Mr. Lyles managed significant operating budgets and addressed complex operational issues. The broad knowledge of the U.S. military and the defense industry he attained through these experiences, combined with his engineering and aerospace educational background, enable Mr. Lyles to provide critical strategic and business advice to our aerospace and defense businesses. In addition, Mr. Lyles has gained a thorough understanding of challenges that face public companies through his service on public company boards.

DIRECTOR SINCE

DECEMBER 2003

AGE: 70

MARK M. MALCOLM

President and Chief Executive Officer of Tower International, Inc., 2007 to 2016

Senior Advisor, Cerberus Capital Management, 2006 to 2007

Executive Vice President and Controller of Ford Motor Credit, 2004 to 2005; Director of Finance and Strategy, Global Purchasing, of Ford Motor Company, 2002 to 2004

COMMITTEES:

Audit

Finance and Benefit Plans

Mr. Malcolm currently serves as a director of Tower International, Inc.

DIRECTOR SINCE AUGUST

2015

Key Attributes/Skills/Expertise: Mr. Malcolm's senior executive positions at Tower International and Ford provide him with critical knowledge of the management, financial and operational requirements of a large company. In these positions, Mr. Malcolm gained extensive experience in dealing with accounting

AGE: 63

principles and financial reporting, evaluating financial results and the financial reporting process of a public company. Mr. Malcolm brings to the Board a broad knowledge of the complex business issues facing a public company in areas such as risk management, global supply chain management and corporate governance. Based on his experience, the Board has determined that Mr. Malcolm is an Audit Committee Financial Expert.

General Dynamics 2017 Proxy Statement 9

Table of Contents

Election of Directors

PHEBE N. NOVAKOVIC

Chairman and Chief Executive Officer of General Dynamics since January 2013; President and Chief Operating Officer, May 2012 through December 2012; Executive Vice President, Marine Systems, May 2010 to May 2012; Senior Vice President, Planning and Development, July 2005 to May 2010; Vice President, Strategic Planning, October 2002 to July 2005

COMMITTEES:

Ms. Novakovic currently serves as a director of Abbott Laboratories.

None

DIRECTOR SINCE MAY 2012

AGE: 59

Key Attributes/Skills/Expertise: Ms. Novakovic's service as a senior officer of General Dynamics since 2002 makes her a valuable and trusted advisor. Through her roles as chairman and chief executive officer, president and chief operating officer, and executive vice president, Marine Systems, she has developed a deep understanding of the company's business operations, growth opportunities, risks and challenges. As senior vice president, planning and development, she gained a strong understanding of our core customers and the global marketplace in which we operate. Ms. Novakovic's current service as a public company director provides her with a valuable perspective on corporate governance matters and the roles and responsibilities of a public company board.

WILLIAM A. OSBORN

Chairman of Northern Trust Corporation, 1995 to 2009; Chief Executive Officer of Northern Trust Corporation, 1995 through 2007 and President of Northern Trust Corporation and The Northern Trust Company, 2003 to 2006

Mr. Osborn currently serves as a director of Abbott Laboratories and Caterpillar, Inc.

COMMITTEES:

Audit

Compensation

Finance and Benefit Plans

DIRECTOR SINCE DECEMBER 2009

Key Attributes/Skills/Expertise: Mr. Osborn's prior service as a senior executive of Northern Trust Corporation, including as chairman and chief executive officer, and president, provides him with extensive knowledge of the complex financial, operational and governance issues of a large public company. He brings to our Board a well-developed awareness of financial strategy, asset management and risk management and a strong understanding of public company governance. The Board has determined that Mr. Osborn's extensive experience with accounting principles, financial reporting and evaluation of financial results qualifies him as an Audit Committee Financial Expert.

AGE: 69

10 General Dynamics 2017 Proxy Statement

Table of Contents

Election of Directors

CATHERINE B. REYNOLDS

Chairman and Chief Executive Officer of EduCap, Inc. since 1988

Chairman and Chief Executive Officer of The Catherine B. Reynolds Foundation since 2000

Founder and Chairman of Servus Financial Corporation, 1993 to 2000

COMMITTEES:

N/A

Ms. Reynolds currently serves as a director of Lindblad Expeditions Holdings, Inc.

**NEW DIRECTOR
NOMINEE**

AGE: 59

Key Attributes/Skills/Expertise: Ms. Reynolds' sound business experience and financial background, including her innovative development of the first asset-backed securitization structure for consumer education loans, enables her to provide valuable financial and business advice to the company. Ms. Reynolds is a certified public accountant and has served on the audit and compensation committees of a public company. Through her senior executive and board positions with EduCap and Servus Financial, she has developed critical knowledge of the financial and risk management challenges that companies face. Ms. Reynolds also has gained valuable insight into public company governance and operations through her prior and current service on public company boards.

Ms. Reynolds was identified as a director nominee by the chairman and chief executive officer.

LAURA J. SCHUMACHER

Executive Vice President, External Affairs and General Counsel of Abbvie Inc. since January 2013

Executive Vice President, General Counsel and Secretary of Abbott Laboratories, 2007 to 2012

COMMITTEES:

Compensation

Key Attributes/Skills/Expertise: Ms. Schumacher's positions as chief legal officer of two large public companies provide her with extensive experience with respect to risk management and a deep knowledge of the types of legal and regulatory risks

Nominating and Corporate
Governance

facing public companies. Her experience as a senior executive in the healthcare industry has provided her with a keen awareness of strategic considerations and challenges associated with a complex, highly-regulated industry. Additionally, through her key role in the strategic consideration and execution of the separation of Abbvie from Abbott Laboratories, Ms. Schumacher brings an important understanding of and insight into corporate governance matters and complex corporate transactions.

DIRECTOR SINCE
FEBRUARY 2014

AGE: 53

Table of Contents

Election of Directors

PETER A. WALL

Retired General, British Army; Chief of the General Staff, 2010 to 2014; Commander in Chief, Land Command, 2009 to 2010

Director of Operations, United Kingdom Ministry of Defence, 2007 to 2009

Director, Amicus (strategic leadership advisory firm) since 2014

COMMITTEES:

Nominating and Corporate Governance

DIRECTOR SINCE AUGUST 2016

AGE: 61

Key Attributes/Skills/Expertise: Mr. Wall had a distinguished career in the British Army before retiring at the rank of General in 2014. He also served as Director of Operations for the United Kingdom Ministry of Defence. As Chief of the General Staff of the British Army, Mr. Wall managed significant operating budgets and led the British Army through significant transformation to ensure its relevance for the future. Mr. Wall's service in the United Kingdom Ministry of Defence and British Army give him an in-depth understanding and appreciation of the complexities of the U.K. military and the defense industry. Mr. Wall brings to the Board important insight into the operational requirements of our customers, as well as a deep understanding of global security issues.

Nominated to the Board in August 2016, Mr. Wall was initially identified by a former non-management director and the chief executive officer together with the Nominating and Corporate Governance Committee and was recommended as a director nominee by the Nominating and Corporate Governance Committee.

Director Retirement. William Fricks will not stand for re-election at the Annual Meeting. General Dynamics and the Board appreciate his many years of dedicated service and valuable counsel as a member of the Board.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ALL DIRECTOR NOMINEES LISTED ABOVE.

Director Retirement Policy. Under the company's Bylaws, no director shall stand for election beyond the age of 75. Additionally, the Bylaws provide that under circumstances of significant benefit to the company, an individual over the age of 72 years may stand for election as director only with the approval of the Nominating and Corporate Governance Committee and a two-thirds vote of the directors then in office. In February 2017, the committee

recommended and in March 2017 the Board unanimously requested that Messrs. Chabraja and Keane each be nominated to stand for re-election. The Board took this action in recognition of the continued valuable counsel and insight that each of these directors provides to the Board.

Nominees to the Board Submitted by Shareholders. The committee will consider director nominees recommended by shareholders in the same manner as it considers and evaluates potential directors identified by the company. Additionally, our bylaws permit a shareholder or a group of up to 20 shareholders who have owned 3 percent or more of our outstanding shares of capital stock continuously for 3 years to submit director nominees for inclusion in our proxy statement if the shareholder(s) and the nominee(s) satisfy the requirements specified in our bylaws (a process known as proxy access). The requirements for director nominations, including requirements for proxy access, can be found in Article II, Section 10 of our Amended and Restated Bylaws available on our website at www.gd.com/CorporateGovernance, or in print upon request.

12 General Dynamics 2017 Proxy Statement

Table of Contents

GOVERNANCE OF THE COMPANY

OUR COMMITMENT TO STRONG CORPORATE GOVERNANCE

The General Dynamics Board of Directors believes that a commitment to good corporate governance enhances shareholder value. To that end, General Dynamics is committed to employing strong corporate governance practices to promote a culture of ethics and integrity that defines how we do business. At the core, we are in business to earn a fair return for our shareholders.

On the recommendation of the Nominating and Corporate Governance Committee, the Board has adopted the General Dynamics Corporate Governance Guidelines to provide a framework for effective governance of the Board and the company. The guidelines establish policies and practices with respect to Board operations and responsibilities, including board structure and composition, director independence, executive and director compensation, succession planning and the receipt of concerns and complaints by the Board. The Board regularly reviews these guidelines and updates them periodically in response to changing regulatory requirements, feedback from shareholders on governance matters and evolving best practices in corporate governance.

The Board believes that its commitment to good governance is demonstrated by key corporate governance practices, including:

a majority voting standard for the election of directors coupled with a director resignation policy;

an independent Lead Director;

a market-leading executive stock ownership policy;

a policy prohibiting hedging and pledging by directors and officers;

an executive compensation recoupment (clawback) policy;

disclosure of corporate political contributions and trade association dues;

shareholders' right to call a special meeting; and

shareholders' ability to nominate director candidates and have those nominees included in the company's proxy statement.

These and other practices are highlighted on page 3.

OUR CULTURE OF ETHICS

As part of our commitment to strong corporate governance practices, we maintain an active and robust ethics program. Our ethics program is rooted in our ethos – our distinguishing moral nature. Our ethos is defined by five 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.

As a community of people dedicated to our ethos, we stand against those who betray others, trod upon others' rights or disrespect the rule of law. Each of us has an obligation to behave according to our values. In that way, we can ensure that we continue to be good stewards of the investments in us by our shareholders, customers, employees and communities, now and in the future.

We have a Standards of Business Ethics and Conduct Handbook that applies to all employees. This handbook, known as the Blue Book, has been updated and improved as we have grown and changed over the years. Our ethics program also includes periodic training on ethics and compliance topics for all employees and a 24-hour ethics helpline, which employees can access via telephone or online to communicate any business-related ethics concerns.

Table of Contents

Governance of the Company

We have adopted ethics codes specifically applicable to our Board of Directors and our financial professionals. The Code of Conduct for Members of the Board of Directors embodies our Board's commitment to manage our business in accordance with the highest standards of ethical conduct. The Code of Ethics for Financial Professionals, which supplements the Blue Book, applies to our chief executive officer, chief financial officer, controller and persons performing similar financial functions.

Any amendments to or waivers from the Standards of Business Ethics and Conduct, Code of Ethics for Financial Professionals or Code of Conduct for Members of the Board of Directors on behalf of any of our executive officers, financial professionals or directors will be disclosed on our website. The current Standards of Business Ethics and Conduct are available on our website at www.gd.com/Responsibility.

BOARD LEADERSHIP STRUCTURE

Our Board comprises independent, accomplished and experienced directors who provide advice and oversight to further the interests of our company and our shareholders. Our Board believes that its organizational structure provides a framework for it to provide independent leadership and engagement while ensuring appropriate insight into the operations and strategic issues of the company.

Chairman Strong and Effective Leadership. Our Board elects a Chairman from among the directors and determines whether to separate or combine the roles of Chairman and Chief Executive Officer based on what it believes best serves the needs of the company and its shareholders at any particular time. The Board believes that Ms. Novakovic's deep understanding of the company's business, day-to-day operations, growth opportunities, challenges and risk management practices gained through several leadership positions enable her to provide strong and effective leadership to the Board and to ensure the Board is informed of important issues facing the company. The Board also believes that having a combined role promotes a cohesive, strong and consistent vision and strategy for the company.

Independent Lead Director Additional Independent Oversight. The Board has created the position of a Lead Director, elected annually by the Board from among the independent directors. Mr. Crown currently serves as Lead Director. The Board believes the Lead Director position provides additional independent oversight of senior management and board matters. The selection of a Lead Director facilitates communication among the directors or between any of them and the chairman. Directors frequently communicate among themselves and directly with the chairman. The Lead Director's authority and responsibilities are as follows:

LEAD DIRECTOR AUTHORITY AND RESPONSIBILITIES

- (1) acts as chair at Board meetings when the chairman is not present, including meetings of the non-management directors;
- (2) has the authority to call meetings of the non-management directors;

- (3) coordinates activities of the non-management directors and serves as a liaison between the chairman and the non-management directors;
- (4) works with the chairman to develop and agree to meeting schedules and agendas, and agree to the nature of the information that will be provided to directors in advance of meetings;
- (5) is available for consultation and communication with significant shareholders, when appropriate; and
- (6) performs such other duties as the Board may determine from time to time.

14 General Dynamics 2017 Proxy Statement

Table of Contents

Governance of the Company

DIRECTOR INDEPENDENCE

Independence Standards. Our Board of Directors assesses the independence of our directors and examines the nature and extent of any relationships between General Dynamics and our directors, their families and their affiliates. Our Board has established an objective that at least two-thirds of the directors be independent directors. For a director to be considered independent, the Board must determine that a director does not have any direct or indirect material relationship with General Dynamics. Our Board has established director independence guidelines (the Director Independence Guidelines) as part of the Corporate Governance Guidelines to assist in determining director independence in accordance with the rules of the New York Stock Exchange.

AN INDEPENDENT DIRECTOR UNDER OUR DIRECTOR INDEPENDENCE GUIDELINES:

- (1) is not a current employee, nor has an immediate family member who is a current executive officer, of General Dynamics;
- (2) has not received, nor has an immediate family member who has received, during the immediately preceding fiscal year, more than \$120,000 in direct compensation from General Dynamics, other than director and committee fees and pension or other forms of deferred compensation;
- (3) is not, nor has an immediate family member who is, currently employed as an executive officer of another company where any executive officer of General Dynamics currently serves on that company's compensation committee;
- (4) is not a current partner of, or employee of, a present internal or external auditor of General Dynamics;
- (5) does not have an immediate family member who is a current partner of, or an employee assigned to work personally on General Dynamics' audit by, a present internal or external auditor of General Dynamics;
- (6) except as otherwise provided in (7) below, is not a current executive officer or an employee, nor has an immediate family member who is a current executive officer, of a company that made payments to, or received payments from, General Dynamics for property or services in an amount that, in the immediately preceding fiscal year, exceeded the greater of \$1 million or 2 percent of the consolidated gross revenues of that company; and
- (7) is not an executive officer of a charitable organization that, in the immediately preceding fiscal year, received contributions from General Dynamics in an amount that exceeded the greater of \$1 million or 2 percent of the consolidated gross revenues of that organization.

Independence Determinations. In March of each year and at other times during the year for director nominations or appointments occurring outside of the annual meeting, the Board of Directors considers whether each director and nominee to the Board meets the definition of an independent director in accordance with the rules of the New York Stock Exchange and the Director Independence Guidelines. The Board has determined that Ms. Barra, Ms. Reynolds, Ms. Schumacher and Messrs. Crown, deLeon, Fricks, Keane, Lyles, Malcolm, Osborn and Wall each qualifies as an independent director. The Board had previously determined that James Mattis, who resigned from the Board in

January 2017, qualified as an independent director. The Board has also determined that Mr. Chabraja and Ms. Novakovic are not independent directors. To make these independence determinations, the Board reviewed all relationships between General Dynamics and the directors or nominees and affirmatively determined that none of the individuals qualifying as independent has a material business, financial or other type of relationship with General Dynamics, other than as a director or shareholder of the company. Specifically, the Board considered the relationships listed below and the related person transactions listed on page 20 of this Proxy Statement and found them to be immaterial. For each of the relationships that the Board considered for 2014, 2015 and 2016, the payments made or received by General Dynamics, and the charitable contributions made by General Dynamics, fell below the thresholds in our Director Independence Guidelines (the greater of \$1 million or 2 percent of the consolidated gross revenues of the other company). Listed below are the relationships that existed in 2016 that were considered by the Board as part of their independence determinations.

Ms. Barra and Ms. Reynolds and Messrs. Crown, deLeon, Keane, Lyles and Osborn serve as members of the boards of trustees or boards of directors of charitable and other non-profit organizations to which General Dynamics (i) has made payments for memberships, sponsorships, tradeshow exhibit space or tuition in the usual course of our business, (ii) made and received payments for products and services in the usual course of our business or (iii) made contributions as part of our annual giving program. The 2016 payments fell below the greater of \$1 million or 2 percent of the consolidated gross revenues of the organizations. None of the 2016 charitable contributions to these organizations exceeded \$110,000.

Table of Contents

Governance of the Company

Messrs. Crown, Keane and Osborn serve as directors of companies, and Ms. Barra and Ms. Schumacher are executive officers of companies to which General Dynamics has sold products and services, or from which General Dynamics has purchased products and services, in the ordinary course of business. None of the directors had any material interest in, or received any compensation in connection with, these ordinary-course business relationships. Each of the payments made or received by General Dynamics fell below the greater of \$1 million or 2 percent of the other company's revenues.

Mr. Mattis' brother is an employee (and not an executive officer) of a subsidiary of General Dynamics. The compensation paid to Mr. Mattis' brother in 2016 did not exceed \$120,000. Mr. Mattis resigned from the Board in January 2017.

BOARD MEETINGS, BUSINESS UNIT VISITS AND ATTENDANCE

During 2016, the Board of Directors held eight meetings. This included a three-day meeting in February to review our 2016 operating plan, including the operating plans of each of our business groups. In August 2016, the Board visited the San Diego facility of our General Dynamics NASSCO business unit and met with that business unit's management team. Each of our directors attended at least 86% percent of the meetings of the Board and committees on which they served in 2016, with 9 of our current 12 directors attending 100 percent of the Board and committee meetings. We encourage directors to attend each annual meeting of shareholders, and in 2016 all of our directors attended the annual meeting.

EXECUTIVE SESSIONS OF THE BOARD

Our Board holds executive sessions of the non-management directors following all regularly scheduled Board meetings. The non-management directors may also meet without management present at other times as requested by any non-management director. The independent Lead Director serves as chair at the executive sessions.

BOARD COMMITTEES

The Board of Directors has established the following four standing committees to assist in executing its duties: Audit, Compensation, Finance and Benefit Plans, and Nominating and Corporate Governance. The primary responsibilities of each of the committees are described below, together with the current membership and number of meetings held in 2016. Currently, three of the four Board committees are composed of independent, non-management directors, including those committees that are required by the rules of the New York Stock Exchange to be composed solely of independent directors. Each of the Board committees has a written charter. Copies of these charters are available on our website at www.gd.com/CorporateGovernance, or in print upon request.

Committee Members. Listed below are the members of each of the four standing committees as of March 6, 2017.

	AUDIT	COMPENSATION	FINANCE AND	NOMINATING AND
			BENEFIT	CORPORATE
	COMMITTEE	COMMITTEE	PLANS	GOVERNANCE
	COMMITTEE	COMMITTEE	COMMITTEE	COMMITTEE

Mary T. Barra

Nicholas D. Chabraja

James S. Crown

Rudy F. deLeon

William P. Fricks

John M. Keane

Lester L. Lyles

Mark M. Malcolm

William A. Osborn

Laura J. Schumacher

Peter A. Wall

Lead Director

Chairperson

Member

Audit Committee Financial Expert

16 General Dynamics 2017 Proxy Statement

Table of Contents

Governance of the Company

Committee Responsibilities. Following are descriptions of the primary areas of responsibility for each of the four committees.

AUDIT COMMITTEE

NUMBER OF MEETINGS IN 2016: 8

Provides oversight for accounting, financial reporting, internal control, auditing and regulatory compliance activities

Selects and oversees the independent auditor

Approves audit and non-audit services provided by the independent auditor

Reviews the scope of the audit to be conducted by the independent auditor

Reviews our audited consolidated financial statements with management and the independent auditor

Evaluates the performance, responsibilities, budget and staffing of the internal audit function

Evaluates the scope of the internal audit plan

Monitors management's implementation of the policies, practices and programs of the company with respect to business ethics and conduct, and environmental matters

COMPENSATION COMMITTEE

NUMBER OF MEETINGS IN 2016: 4

Evaluates the performance of the chief executive officer and other officers and reviews and approves their compensation

Recommends to the Board the level and form of compensation and benefits for directors

Reviews and approves incentive compensation and equity-based compensation plans

Reviews and monitors succession plans for the chief executive officer and other officers

Has authority to retain and terminate external advisors in connection with the discharge of its duties

Has sole authority to approve compensation consultant fees (to be funded by the company) and the terms of the consultant's retention

FINANCE AND BENEFIT PLANS COMMITTEE

NUMBER OF MEETINGS IN 2016: 3

Oversees the management of the company's finance policies to ensure the policies are in keeping with the company's overall business objectives

With respect to employee benefit plans that name the company or one of its subsidiaries as the investment fiduciary (and for which the company or one of its subsidiaries has not appointed the management investment committee as investment fiduciary):

provides strategic oversight of the management of the assets

reviews and approves investment policy recommendations made by management

reviews and approves the retention of third parties for administration and management services related to trust assets

**NOMINATING AND CORPORATE GOVERNANCE
COMMITTEE**

NUMBER OF MEETINGS IN 2016: 3

Evaluates Board and management effectiveness

Advises the Board on the appropriate size, composition, structure and operations of the Board and its committees

Reviews and recommends to the Board committee assignments for directors

Edgar Filing: GENERAL DYNAMICS CORP - Form DEF 14A

Advises the Board on corporate governance matters and monitors developments, trends and best practices in corporate governance

Recommends to the Board corporate governance guidelines that comply with legal and regulatory requirements

Identifies qualified individuals to serve as directors and recommends director nominees

General Dynamics 2017 Proxy Statement 17

Table of Contents

Governance of the Company

RISK OVERSIGHT

General Dynamics has a comprehensive risk management program conducted by senior management and overseen by the Board of Directors. In particular, the Board oversees management's identification and prioritization of risks. We believe that our risk management processes are well supported by the current board leadership structure.

How We Manage Risk. The following summarizes the key elements of the Board's, senior management's and external advisors' roles in our risk management program.

The Board oversees risk management, focusing on the most significant risks facing the company, including strategic, operational, financial, legal and reputational risks.

Each Board committee is integral to risk management and reports specific risk-management matters as necessary to the full Board.

Senior management is responsible for day-to-day risk management and conducts a thorough assessment through internal management processes and controls.

The chief executive officer and senior management team provide to the Board a dedicated and comprehensive briefing of material risks at least twice per year, and the Board is briefed throughout the year as needed on specific risks facing the company.

External advisors provide independent advice on specific risks and review and comment on risk management processes and procedures as necessary.

The Role of the Board of Directors in Risk Management. The full Board reviews and approves annually a corporate policy addressing the delegation of authority and assignment of management responsibility to ensure that the responsibilities and authority delegated to senior management are appropriate from an operational and risk-management perspective. In addition, the Board assesses the company's strategic and operational risks throughout the year, with particular focus on these risks at an annual three-day Board meeting in early February. At this meeting, senior management reports on opportunities and risks in the markets in which the company conducts business. Additionally, each business unit president and each business group executive vice president presents the unit's and group's respective operating plan and strategic initiatives for the year, including notable business opportunities and risks. The Board reviews, adjusts where appropriate, and approves the business unit and business group goals and adopts our company operating plan for the year. These plans and related risks are monitored throughout the year as

part of periodic financial and performance reports given to the Board by the chief financial officer and executive vice presidents of each business group. The Board also receives briefings from senior management concerning a variety of matters and related risks to the company, including defense budget and acquisition matters and specific customer or program developments.

In addition, each of the Board committees considers risk as it relates to its particular areas of responsibility.

Audit Committee. The Audit Committee has responsibility for oversight of the company's policies and practices concerning overall risk assessment and risk management. The committee reviews and takes appropriate action with respect to the company's annual and quarterly financial statements, the internal audit program, the ethics program and internal controls over financial reporting. To facilitate these risk oversight responsibilities, the committee receives regular briefings from members of senior management on accounting matters; the internal audit plan; internal control over financial reporting matters; significant litigation and other legal matters; ethics program matters; and environmental matters. The committee also holds regular executive sessions with internal audit and regular executive sessions with the partners of the KPMG LLP audit team.

Compensation Committee. The Compensation Committee oversees our executive compensation program to ensure that the program creates incentives for strong operational performance and for the long-term benefit of the company and its shareholders without encouraging excessive risk-taking. The committee receives briefings from the chairman and chief executive officer, human resources senior management and outside consultants and advisors on compensation matters.

Finance and Benefit Plans Committee. The Finance and Benefit Plans Committee oversees the management of the company's finance policies and the assets of the company's defined benefit plans for employees. The committee oversees market risk exposure with respect to its assets within the company's defined benefit plans and related to the capital structure of the company, including borrowing, liquidity, allocation of capital and funding of benefit plans. To assess risks in these areas, the committee receives regular briefings from our senior management or external advisors on finance policies, pension plan liabilities and funding, and asset performance.

Table of Contents

Governance of the Company

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee oversees risks related to the company's governance structure and processes and risks arising from related person transactions. The committee receives briefings from the senior vice president, general counsel and secretary.

The Role of External Advisors in Risk Management. The company's external advisors support the risk management program in a number of ways. Specifically, external advisors support the program by: (1) auditing our financial statements; (2) reviewing and suggesting updates and improvements of our risk management processes and procedures; (3) assisting in the implementation of Board and senior management responsibilities regarding risk management; and (4) supporting and assisting with public disclosure regarding risk management and company risks.

Succession Planning and Risk Management. The Board considers senior management succession planning a core part of the company's risk management program. At least annually, the Board reviews with the chief executive officer succession planning for senior leadership positions, and the timing and development required to ensure continuity of leadership over the short term and long term.

DIRECTOR ORIENTATION AND CONTINUING EDUCATION

Within six months of election to the Board, each new director receives an orientation that consists of a series of in-person briefings provided by corporate officers on our business operations; significant financial, accounting and risk-management matters; corporate governance; ethics; and key policies and practices. The new director receives briefings on the responsibilities, duties and activities of the committees on which the director will initially serve. The new director is also provided the opportunity to visit business units within each of the four business groups and receive briefings from the respective group executive vice president and members of the business unit management team.

In addition, to further support directors, the general counsel and chief financial officer periodically provide materials and briefing sessions on subjects that assist directors in fulfilling their duties. Annually, the Board holds a three-day meeting with our senior management to review and approve the operating plan of each of our business units and business groups and the company as a whole. Directors also visit our business units periodically. These visits allow the directors to interact with the business unit management teams and employees and gain a firsthand view of our operations.

BOARD AND COMMITTEE PERFORMANCE SELF-ASSESSMENTS

Each year, the directors undertake a self-assessment for the Board and each committee on which they serve that elicits feedback on the performance and effectiveness of the Board and its committees. As part of this self-assessment, the directors are asked to consider the Board's role, relations with management, composition and meetings. Each committee is asked to consider its role and the responsibilities articulated in the committee charter, the composition of the committee and the committee meetings. The self-assessment responses and comments are compiled by the

Corporate Secretary and presented to the Nominating and Corporate Governance Committee for initial review. The responses and comments are presented to each committee and the full Board.

COMMUNICATIONS WITH THE BOARD

Any shareholder or other interested party who has a concern or question about the conduct of General Dynamics may communicate directly with our non-management directors, the Chairman or the full Board. Communications may be confidential or anonymous. Communications should be submitted in writing to the chair of the Nominating and Corporate Governance Committee in care of the Corporate Secretary, General Dynamics Corporation, 2941 Fairview Park Drive, Suite 100, Falls Church, Virginia 22042. The Corporate Secretary will receive and process all written communications and will refer all substantive communications to the chair of the Nominating and Corporate Governance Committee in accordance with guidelines approved by the independent members of the Board. The chair of the Nominating and Corporate Governance Committee will review and, if necessary, investigate and address all such communications and will report the status of these communications to the non-management directors as a group or the full Board on a quarterly basis.

Our employees and other interested parties may also communicate concerns or complaints about our accounting, internal control over financial reporting or auditing matters directly to the Audit Committee. Communications may be confidential or anonymous and can be submitted in writing or reported by telephone. Written communications should be submitted to the chair of the Audit Committee in care of our ethics officer at the address in the preceding paragraph or at the address in the Standards of Business Ethics and Conduct Handbook provided to all employees. Our employees can call a toll-free helpline number or access the helpline online, each of which is provided to all employees. The ethics officer will review, investigate and address any concerns or complaints unless the Audit Committee instructs otherwise. The ethics officer will report the status of all concerns and complaints to the Audit Committee. The Audit Committee may also direct that matters be presented to the full Board and may direct special treatment of any concern or complaint addressed to it, including the retention of outside advisors or counsel.

Table of Contents

Governance of the Company

RELATED PERSON TRANSACTIONS POLICY

Our Board of Directors has adopted a written policy on the review and approval of related person transactions. Related persons covered by the policy are:

- (1) executive officers, directors and director nominees;
- (2) any person who is known to be a beneficial owner of more than 5 percent of our voting securities;
- (3) any immediate family member of any of the foregoing persons; or
- (4) any entity in which any of the foregoing persons has or will have a direct or indirect material interest.

A related person transaction is defined by this policy as a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which: General Dynamics will be a participant; the amount involved exceeds \$120,000; and any related person will have a direct or indirect material interest. The following interests and transactions are not subject to the policy:

- (1) director compensation that has been approved by the Board;
- (2) a transaction where the rates or charges are determined by competitive bid; or
- (3) a compensatory arrangement solely related to employment with General Dynamics (or a subsidiary) that has been approved by the Compensation Committee, or recommended by the Compensation Committee to the Board.

The Nominating and Corporate Governance Committee is responsible for reviewing, approving and, where applicable, ratifying related person transactions. If a member of the committee has an interest in a related person transaction, then he or she will not be part of the review process.

In considering the appropriate action to be taken regarding a related person transaction, the committee or the Board will consider the best interests of General Dynamics and whether the transaction is fair to the company, is on terms that would be obtainable in an arm's-length transaction or is pursuant to a company discount program for which the related person is eligible, serves a compelling business reason and any other factors it deems relevant. As a condition to approving or ratifying any related person transaction, the committee or the Board may impose whatever conditions and standards it deems appropriate, including periodic monitoring of ongoing transactions.

The following transactions with a related person were determined to pose no actual conflict of interest and were reviewed and approved by the committee or the Board pursuant to our related person transactions policy:

Based upon Schedule 13G filings made with the SEC, BlackRock, Inc., a global provider of investment, advisory and risk management solutions, has reported beneficial ownership of more than 5 percent of our outstanding common stock. An affiliate of BlackRock provides investment management services for certain of our defined benefit plans. The agreements with BlackRock were negotiated in arm's-length transactions and the ownership of General Dynamics stock plays no role in the business relationship between General Dynamics and BlackRock. In addition, we believe the agreements represent standard terms and conditions for investment management services. For providing the services, BlackRock received fees in 2016 totaling approximately \$1.1 million. In accordance with the related person transactions policy, the Nominating and Corporate Governance Committee reviewed and approved the services for 2016 and approved the continuation of the services in 2017.

Henry Crown and Company and one of its affiliated entities made payments of approximately \$178,000 to the company in 2016 for the purchase of business jet spare parts and aircraft maintenance from our subsidiary, Gulfstream Aerospace Corporation. Additionally, these companies purchased aircraft charter services from our subsidiary, Jet Aviation. The amount of payments made to Jet Aviation in 2016 was approximately \$212,000. The purchases from Gulfstream and Jet Aviation were in the ordinary course of business and on arm's-length terms. Henry Crown and Company is an affiliated entity of Mr. Crown.

Dean Roualet, the late brother of Mark Roualet, an executive officer of the company, served as an employee of one of our subsidiaries in 2016. During the year, he received cash compensation of approximately \$234,000, and benefits generally available to other employees with equivalent qualifications, experience and responsibilities.

Table of Contents

Governance of the Company

DIRECTOR COMPENSATION

We compensate each non-management director for service on the Board of Directors. The Compensation Committee reviews director compensation on an annual basis.

2016 Compensation. Director compensation for 2016 was:

COMPENSATION ELEMENT	AMOUNT
Annual Retainer	\$70,000
Lead Director Retainer	\$25,000
Committee Chair Annual Retainer	\$10,000
Attendance Fees	\$3,000 for each meeting of the Board of Directors; \$2,000 for each meeting of any committee; and \$3,000 per day for attending strategic or financial planning meetings sponsored by General Dynamics
Annual Equity Award	Approximately \$142,000 on the date of award
Per Diem Fee for Non-Employee Directors Performing Specific Projects for the Company	\$10,000

As part of the Compensation Committee's annual review in early 2016 and at its request, management engaged Aon Hewitt to conduct a director compensation survey. Aon Hewitt provided director compensation data for the peer group that we used to benchmark executive compensation which showed General Dynamics slightly above the median for equity compensation and slightly below the median for cash compensation. Following this review, the Compensation Committee recommended no changes to director compensation.

Non-management directors have the option of receiving all or part of their annual retainers in the form of Common Stock. The annual retainer, additional committee chair retainer (if any) and attendance fees paid to each director during 2016 are reflected in the Fees Earned or Paid in Cash column of the Director Compensation for Fiscal Year 2016 table, irrespective of whether a director took the annual retainer in shares of Common Stock. The annual equity award consists of restricted stock and stock options granted pursuant to our shareholder-approved equity compensation plan and on the same terms, limits and schedule as awards to other plan participants.

In light of the travel required by service on the Board, we also provide each director with accidental death and dismemberment insurance coverage. Payments by General Dynamics for director accidental death and dismemberment insurance premiums are reflected in the All Other Compensation column of the Director Compensation for Fiscal Year 2016 table.

2017 Compensation. In early 2017, as part of its annual review of director compensation, the Compensation Committee requested that management update its director compensation analysis. Management again engaged Aon Hewitt to provide survey data for the peer group used to benchmark executive compensation. The committee reviewed the survey data regarding director compensation provided by Aon Hewitt. This information showed that the annual retainer and the value of the annual equity award were below the median. Based on this review, the committee increased the annual retainer to \$85,000 and increased the value of the annual equity award to approximately \$150,000. Although the program is reviewed annually, this is the first change to cash compensation since 2011 and the first change to equity compensation since 2015.

Table of Contents

Governance of the Company

DIRECTOR STOCK OWNERSHIP GUIDELINES

The Board of Directors believes that each director should develop a meaningful ownership position in General Dynamics. Therefore, the Board of Directors adopted stock ownership guidelines for non-management directors. Pursuant to these guidelines, each non-management director is expected to own shares of our Common Stock having a value equal to at least 8 times the then-current annual retainer. Non-management directors are subject to the same holding requirements as our named executive officers and are expected to retain shares upon the vesting of restricted stock or exercise of options until the ownership guidelines are met. Management directors are subject to the ownership requirements discussed under Compensation Discussion and Analysis Stock Ownership Guidelines.

DIRECTOR COMPENSATION TABLE

The table below provides total compensation for 2016 for each of General Dynamics non-management directors serving during the year. The number of shares of restricted stock and stock options awarded to the directors annually are the same for each director.

DIRECTOR COMPENSATION FOR FISCAL YEAR 2016						
NAME	FEES EARNED					TOTAL
	OR PAID IN CASH (a)	STOCK AWARDS (b)	OPTION AWARDS (c)	ALL OTHER COMPENSATION (d)		
Mary T. Barra	\$ 126,000	\$ 70,642	\$ 71,162	\$ 2,140	\$ 269,944	
Nicholas D. Chabraja	\$ 509,000	\$ 70,642	\$ 71,162	\$ 4,080	\$ 654,884	
James S. Crown	\$ 170,000	\$ 70,642	\$ 71,162	\$ 2,140	\$ 313,944	
Rudy F. deLeon	\$ 149,000	\$ 70,642	\$ 71,162	\$ 2,140	\$ 292,944	
William P. Fricks	\$ 137,000	\$ 70,642	\$ 71,162	\$ 4,080	\$ 282,884	
John M. Keane	\$ 112,000	\$ 70,642	\$ 71,162	\$ 4,080	\$ 257,884	
Lester L. Lyles	\$ 127,000	\$ 70,642	\$ 71,162	\$ 4,080	\$ 272,884	
Mark M. Malcolm	\$ 123,000	\$ 70,642	\$ 71,162	\$ 2,140	\$ 266,944	
James N. Mattis (e)	\$ 122,000	\$ 70,642	\$ 71,162	\$ 2,140	\$ 265,944	
William A. Osborn	\$ 141,000	\$ 70,642	\$ 71,162	\$ 4,080	\$ 286,884	
Laura J. Schumacher	\$ 117,000	\$ 70,642	\$ 71,162	\$ 2,140	\$ 260,944	
Peter A. Wall (f)	\$ 34,870	\$ 29,564	\$ 29,396	\$ 1,858	\$ 95,688	

(a) Ms. Barra, Ms. Schumacher and Messrs. Crown, Fricks and Keane elected to receive 100 percent of their annual retainer in Common Stock. As a result, they each received 470 shares of Common Stock with a grant date fair value of approximately \$70,000. Mr. deLeon elected to receive 50 percent of his annual retainer in Common Stock. As a result, Mr. deLeon received 234 shares of Common Stock with a grant date fair value of approximately \$35,000.

- (b) The amounts reported in the Stock Awards column reflect the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board (FASB) ASC Topic 718, *Compensation – Stock Compensation*. Assumptions used in the calculation of these amounts are included in Note O to our audited financial statements for the fiscal year ended December 31, 2016, included in our Annual Report on Form 10-K filed with the SEC on February 6, 2017. Restricted stock awards outstanding as of December 31, 2016, for each director were as follows: 2,480 for Ms. Barra and Messrs. Chabraja, Crown, Fricks, Keane, Lyles and Osborn; 1,860 for Mr. Mattis; 1,580 for Ms. Schumacher; 1,040 for Mr. deLeon; 730 for Mr. Malcolm; and 200 for Mr. Wall.
- (c) The amounts reported in the Option Awards column reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note O to our audited financial statements for the fiscal year ended December 31, 2016, included in our Annual Report on Form 10-K filed with the SEC on February 6, 2017. Option awards outstanding as of December 31, 2016, for each director were as follows: 26,950 for Ms. Barra; 26,880 for Messrs. Chabraja, Crown, Fricks, Keane and Lyles; 21,670 for Mr. Osborn; 12,690 for Mr. Mattis; 10,190 for Ms. Schumacher; 5,790 for Mr. deLeon; 4,430 for Mr. Malcolm; and 1,320 for Mr. Wall.
- (d) Amounts reflect payments by General Dynamics for accidental death and dismemberment (AD&D) insurance.
- (e) Mr. Mattis resigned from the Board in January 2017.
- (f) Mr. Wall joined the Board in August 2016.

22 General Dynamics 2017 Proxy Statement

Table of Contents**ADVISORY VOTE ON THE SELECTION OF INDEPENDENT AUDITORS****(PROPOSAL 2)**

The Audit Committee of the Board of Directors has the sole authority to retain the company's independent auditors and is responsible for the compensation and oversight of the work of the independent auditors for the purpose of preparing or issuing an audit report or related work. The Audit Committee has selected KPMG LLP (KPMG), an independent registered public accounting firm, as our independent auditors for 2017. KPMG has been retained as the company's independent auditors since 2002. In order to assure continuing auditor independence, the Audit Committee periodically considers whether there should be a regular rotation of the independent audit firm. The members of the Audit Committee believe that the continued retention of KPMG to serve as the company's independent auditors is in the best interests of the company and its shareholders.

Your Board of Directors is submitting this selection of KPMG as the independent auditors for 2017 to an advisory vote of the shareholders. The Sarbanes-Oxley Act of 2002 requires that the Audit Committee be directly responsible for the appointment, compensation and oversight of the audit work of the independent auditors. Nevertheless, as a good corporate governance practice, your Board has determined to solicit the vote of the shareholders on an advisory basis in making this appointment.

If the shareholders do not vote on an advisory basis in favor of the selection of KPMG as our independent auditors, the Audit Committee will reconsider whether to engage KPMG and may ultimately determine to engage that firm or another audit firm without resubmitting the matter to shareholders. Even if the shareholders vote in favor of the selection of KPMG, the Audit Committee may in its sole discretion terminate the engagement of KPMG and direct the appointment of another independent audit firm at any time during the year.

Audit and Non-Audit Fees. The following table shows aggregate fees for professional services rendered by KPMG for the audit of our annual consolidated financial statements for the years 2016 and 2015, and fees billed for other services rendered by KPMG during those years.

	2016	2015
Audit Fees (a)	\$ 18,333,000	\$ 17,900,000
Audit-related Fees (b)	4,731,000	3,036,000
Tax Fees (c)	1,063,000	1,250,000
All Other Fees (d)	51,000	70,000
Total Fees	\$ 24,178,000	\$ 22,256,000

(a) Audit fees are fees for professional services performed by KPMG for the audit of our consolidated annual financial statements (including the audit of internal control over financial reporting) and review of our consolidated quarterly financial statements. These fees also include fees for services that are normally provided in connection with statutory and regulatory filings.

(b)

Audit-related fees are fees for assurance and related services performed by KPMG that are reasonably related to the performance of the audit or review of our consolidated financial statements. These fees consist primarily of fees for professional services for benefit plan audits and evaluation of new accounting standards.

- (c) Tax fees are fees for professional services performed by KPMG for tax compliance, tax advice and tax planning. These fees consist primarily of fees for tax return preparation and review, tax compliance services for expatriates and advice regarding tax implications of certain transactions.
- (d) All other fees are primarily related to professional services performed by KPMG for information technology contract compliance, assessment and advisory services.

Auditor Independence. The Audit Committee has considered whether the services rendered by KPMG are compatible with maintaining KPMG's independence. Representatives of KPMG are expected to attend the Annual Meeting, may make a statement if they desire to do so and will be available to respond to questions.

Policy on Pre-Approval. The company and the Audit Committee are committed to ensuring the independence of the external auditors, both in fact and in appearance. Therefore, in accordance with the applicable rules of the Securities and Exchange Commission, the Audit Committee has established policies and procedures for pre-approval of all audit and permitted non-audit services provided by the independent auditors. The Audit Committee determines annually whether to approve all audit and permitted non-audit services proposed to be performed by the independent auditors (including an estimate of fees). If other audit or permitted non-audit services not included in the pre-approved services are required during the year, such services must be approved in advance by the Audit Committee. The Audit Committee may delegate authority to grant pre-approvals to its chair or a subcommittee as it deems appropriate, subject to a reporting obligation to the Audit Committee. All audit and permitted non-audit services listed above were pre-approved.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THIS PROPOSAL.

Table of Contents

The following Audit Committee Report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement or any portion hereof into any filing under the Securities Act of 1933, as amended (Securities Act) or the Securities Exchange Act of 1934, as amended (Exchange Act), and shall not otherwise be deemed filed under such acts.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors has furnished the following report.

The following five directors serve on the Audit Committee: William P. Fricks (Chair), James S. Crown, Lester L. Lyles, Mark M. Malcolm and William A. Osborn.

None of these directors is an officer or employee of General Dynamics. They all meet the independence requirements of the New York Stock Exchange and Rule 10A-3 of the Exchange Act. The Board has determined that Mr. Fricks, Mr. Malcolm and Mr. Osborn each qualifies as an audit committee financial expert as defined by the Securities and Exchange Commission (SEC) in Item 407(d) of Regulation S-K. The Audit Committee is governed by a written charter approved by the Board. In accordance with that charter, the Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of General Dynamics. The Committee held eight meetings in 2016.

The Audit Committee has reviewed and discussed with management and the company's independent auditors for 2016, KPMG LLP, an independent registered public accounting firm, the company's audited consolidated financial statements as of December 31, 2016, and for the year ended on that date. Management is responsible for the company's financial reporting process, including maintaining a system of internal controls, and for preparing the consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP). KPMG is responsible for auditing those consolidated financial statements and for expressing an opinion on the conformity of the consolidated financial statements with GAAP. In addition, in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, the Audit Committee reviewed and discussed with management, the company's internal auditors and KPMG, management's report on the operating effectiveness of internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, including KPMG's related report and attestation.

The Audit Committee has discussed with KPMG the matters required under applicable professional auditing standards and regulations adopted by the Public Company Accounting Oversight Board. In addition, the Audit Committee has received and reviewed the written disclosures and letter from KPMG required by applicable requirements of the Public Company Accounting Oversight Board regarding KPMG's communications with the Audit Committee concerning independence, and has discussed with KPMG its independence, including the compatibility of non-audit services with maintaining KPMG's independence. Based on the foregoing discussions and reviews, the Audit Committee has satisfied itself as to the independence of KPMG.

In reliance on the reviews and discussions described above, the Audit Committee recommended to the Board, and the Board approved, the inclusion of the audited consolidated financial statements in the company's Annual Report on Form 10-K as of and for the year ended December 31, 2016, for filing with the SEC.

This report is submitted by the Audit Committee.

William P. Fricks (Chair)

Mark M. Malcolm

James S. Crown

William A. Osborn

Lester L. Lyles
February 4, 2017

24 General Dynamics 2017 Proxy Statement

Table of Contents

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

(PROPOSAL 3)

As required by Section 14A of the Exchange Act, we are seeking shareholder input on our executive compensation as disclosed in this Proxy Statement. The Board and the Compensation Committee actively monitor our executive compensation practices in light of the industry in which we operate and the marketplace for talent in which we compete. We remain focused on compensating our executive officers fairly and in a manner that emphasizes performance while providing the tools necessary to attract and retain the best talent.

As described in the Compensation Discussion and Analysis section, our executive compensation program is designed to create incentives both for strong operational performance in the current year and for the long-term benefit of the company, thereby closely aligning the interests of management with the interests of our shareholders.

For these reasons, the Board recommends shareholders vote in favor of the following resolution:

Resolved, that the compensation paid to the company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

The vote is advisory and is not binding on the Board. However, the Compensation Committee of the Board expects to take into account the outcome of the vote as it continues to consider the company's executive compensation program.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THIS PROPOSAL.

ADVISORY VOTE ON THE FREQUENCY OF FUTURE EXECUTIVE COMPENSATION ADVISORY VOTES

(PROPOSAL 4)

As required by Section 14A of the Exchange Act, we are seeking shareholder input on how often we will seek non-binding advisory votes regarding the compensation of our named executive officers as disclosed in future proxy statements, similar to Proposal 3 in this Proxy Statement (we refer to those future votes as "Future Advisory Compensation Votes"). We are required to hold Future Advisory Compensation Votes at least once every three years. Accordingly, shareholders may indicate their preference on the frequency of Future Advisory Compensation Votes by voting for one of the following options:

That Future Advisory Compensation Votes be held every year;

That Future Advisory Compensation Votes be held every two years; or

That Future Advisory Compensation Votes be held every three years.
The Board recommends that shareholders vote in favor of holding Future Advisory Compensation Votes every year. Please note that you are being asked to indicate your preference on the above choices, and you are not voting to approve or disapprove the Board's recommendation.

The Board believes that the optimal frequency for holding Future Advisory Compensation Votes is every year. The Board believes an annual vote, together with the company's shareholder engagement program, will allow the company to stay aligned with shareholders' views on our executive compensation program.

**YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE
IN FAVOR OF HOLDING FUTURE ADVISORY COMPENSATION VOTES EVERY YEAR.**

General Dynamics 2017 Proxy Statement 25

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

In the Compensation Discussion and Analysis, we describe the details of our named executive officer executive compensation program.

The section is organized as follows:

Table of Contents

<u>Executive Summary</u>	27
<u>Business Overview</u>	27
<u>Company Performance Highlights</u>	28
<u>Components of Compensation and Alignment with Company Performance</u>	30
<u>Continued Changes to Compensation Program in Response to Shareholder Feedback</u>	31
<u>2016 Variable Compensation Drivers and Outcomes</u>	32
<u>2016 Shareholder Outreach and Say on Pay Result and Program Updates</u>	33
<u>Strong, Independent Compensation Governance and Practices</u>	34
<u>Executive Compensation Goals and Objectives</u>	35
<u>Components of Executive Compensation</u>	35
<u>Variable and Performance-Based Compensation</u>	36
<u>Annual Incentive Compensation</u>	37
<u>Long-Term Incentive Compensation</u>	37
<u>Fixed Compensation and Benefits</u>	39
<u>Potential Severance and Change in Control Benefits</u>	41
<u>The Compensation Process</u>	42
<u>Setting Compensation Levels and Evaluating Performance</u>	42
<u>Peer Group and Benchmarking to the Market</u>	43
<u>NEO Performance Metrics and Targets for 2016</u>	44
<u>Role of the Independent Compensation Consultant</u>	46
<u>Other Considerations</u>	47
<u>Stock Ownership Guidelines and Holding Requirements</u>	47
<u>Anti-Hedging and Anti-Pledging Policies</u>	47
<u>Clawback Policy</u>	47
<u>Monitoring Dilution and Annual Equity Usage</u>	48

<u>Compensation and Risk Management</u>	48
<u>Tax Considerations</u>	48
<u>Executive Compensation Tables</u>	49

26 General Dynamics 2017 Proxy Statement

Table of Contents

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) describes the compensation of our Named Executive Officers (NEOs) for 2016 and includes the following individuals:

Name	Title
Phebe N. Novakovic	Chairman and Chief Executive Officer
Jason W. Aiken	Senior Vice President and Chief Financial Officer
John P. Casey	Executive Vice President, Marine Systems
Mark C. Roualet	Executive Vice President, Combat Systems
S. Daniel Johnson	Executive Vice President, Information Systems and Technology

BUSINESS OVERVIEW

General Dynamics is a global aerospace and defense company that offers a broad portfolio of products and services in:

Business aviation;

Combat vehicles, weapons systems and munitions;

Information technology services and C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance) solutions; and

Shipbuilding and ship repair.

We operate through four business groups, with each group led by an executive vice president:

GENERAL DYNAMICS

Aerospace
Information Systems and Technology

Combat Systems
Marine Systems

Our management team delivers shareholder returns through disciplined execution on 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 creating value for our shareholders. Management's focus on these principles is reflected in the goals set forth in the company's incentive plans because we believe successful execution in these areas directly translates to shareholder value creation. Thus, company-wide and business group performance measures are the key metrics the Compensation Committee (the Committee) considers when making executive compensation decisions for the NEOs.

Table of Contents

Compensation Discussion and Analysis

COMPANY PERFORMANCE HIGHLIGHTS

Shareholder Value. In 2016, the company's commitment to operational excellence delivered another year of value creation for shareholders. The success of our approach under Ms. Novakovic's leadership is evident in our strong operating results. We balance our focus on operations with a thoughtful capital deployment strategy. As stewards of your capital, in 2016 we maintained a deliberate approach to creating shareholder value through our prudent use of capital including investment in long-term business opportunities, an increase in the dividend for the 19th consecutive year and tactical share repurchases. Despite early concerns regarding the near-term health of the business-jet market, our Aerospace group exceeded its plan and achieved the highest margin in the company's history.

Financial Performance Summary. In 2016, the company demonstrated the successful results of a continued focus on operational excellence, resulting in positive operating leverage, strong earnings and record-setting margin. The following charts show key performance metrics over relevant periods. In the fourth year under Ms. Novakovic's leadership, the company has improved performance while also adding new contracts to backlog, thereby sustaining the opportunity for strong execution in the future. In addition, our prudent capital allocation has enabled the company to invest in our businesses while also returning capital to shareholders through dividends and share repurchases.

28 General Dynamics 2017 Proxy Statement

Table of Contents

Compensation Discussion and Analysis

Dividend Payment History*