

GENERAL DYNAMICS CORP
Form 10-K
February 19, 2010
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-3671

GENERAL DYNAMICS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

*State or other jurisdiction of
incorporation or organization*

2941 Fairview Park Drive, Suite 100,
Falls Church, Virginia

Address of principal executive offices

13-1673581

*IRS Employer
Identification No.*

22042-4513

Zip code

Registrant's telephone number, including area code:

(703) 876-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, par value \$1 per share

Name of exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

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None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant was \$19,653,090,757 as of July 5, 2009 (based on the closing price of the shares on the New York Stock Exchange).
385,725,209 shares of the registrant's common stock were outstanding on January 31, 2010.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III incorporates by reference information from certain portions of the registrant's definitive proxy statement for the 2010 annual meeting of shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year.

Table of Contents

INDEX

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	14
Item 1B. <u>Unresolved Staff Comments</u>	16
Item 2. <u>Properties</u>	16
Item 3. <u>Legal Proceedings</u>	16
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	16
<u>PART II</u>	
Item 5. <u>Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	16
Item 6. <u>Selected Financial Data</u>	18
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 8. <u>Financial Statements and Supplementary Data</u>	36
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	66
Item 9A. <u>Controls and Procedures</u>	66
Item 9B. <u>Other Information</u>	69
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	69
Item 11. <u>Executive Compensation</u>	70
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	70
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	70
Item 14. <u>Principal Accountant Fees and Services</u>	70
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	70
<u>Signatures</u>	71
<u>Schedule II – Valuation and Qualifying Accounts</u>	72
<u>Index to Exhibits</u>	72

2 General Dynamics 2009 Annual Report

Table of Contents

(Dollars in millions, unless otherwise noted)

PART I

ITEM 1. BUSINESS

BUSINESS OVERVIEW

General Dynamics offers a broad portfolio of products and services in business aviation; combat vehicles, weapons systems and munitions; shipbuilding design, repair and construction; and information systems, technologies and services. Incorporated in Delaware, we employ approximately 91,700 people and have a global presence.

We are dedicated to delivering consistently superior shareholder returns. Shareholder value is created by excellent program execution, organic growth, margin improvement, cash-flow generation and capital deployment. To drive growth, we identify fast currents in our core markets, new customers and attractive opportunities in adjacent markets. We deploy capital through acquisitions and divestitures, dividends, internal investment and, when appropriate, the repurchase of company shares on the open market.

In addition to creating shareholder value and delivering the highest quality products and services, management fosters a culture centered on continuous improvement, innovation, ethical behavior and integrity. This culture is evident in how we interact with shareholders, employees, customers, partners and the communities in which we operate.

Formed in 1952 through the combination of Electric Boat Company, Consolidated Vultee (CONVAIR) and other companies, General Dynamics grew organically and through acquisitions until the early 1990s, when we sold nearly all of our divisions except Electric Boat and Land Systems. Beginning in 1995, we expanded those two core defense businesses by acquiring additional shipyards and combat vehicle-related businesses. In 1997, to reach a new, expanding market, we began acquiring companies with expertise in information technology products and services. In 1999, we purchased Gulfstream Aerospace Corporation, a business-jet aircraft and aviation support-services company. Since 1995, we have acquired and successfully integrated 54 businesses, including two in 2009.

General Dynamics operates through four business groups – Aerospace, Combat Systems, Marine Systems and Information Systems and Technology.

AEROSPACE

Our Aerospace group designs, manufactures and outfits a comprehensive family of mid-size and large-cabin Gulfstream business-jet aircraft, and provides maintenance, refurbishment, outfitting and aircraft services for a variety of business-jet, narrow-body and wide-body aircraft customers globally. With more than 50 years of experience at the forefront of the business-jet aviation market, the Aerospace group is noted for:

superior aircraft design, quality, safety and reliability;

technologically advanced cockpit and cabin systems; and

industry-leading product service and support.

The group's Gulfstream products include eight aircraft across a spectrum of price and performance options. The varying ranges, speeds and cabin dimensions are well-suited to the transportation needs of an increasingly diverse global customer base. The large-cabin models are manufactured at Gulfstream's headquarters in Savannah, Georgia, and outfitted at one of the group's U.S. completion facilities. A supplier is responsible for construction of the mid-size models. Gulfstream then outfits these models in one of the group's U.S. completion centers.

Table of Contents

The Aerospace group's customers have become increasingly diverse in recent years. International customers now comprise almost 60 percent of the group's order backlog, with strong interest across the globe in Europe, the Middle East, Latin America and the Asia-Pacific region. The group's customer base has also shifted toward private companies and individual customers, which collectively represent more than two-thirds of total orders. Gulfstream remains a leading provider of aircraft for government and military service around the world, with aircraft operating in 37 nations. These government aircraft are used for head-of-state/ executive transportation and a variety of special-mission applications, including aerial reconnaissance, maritime surveillance, weather research and astronaut training.

To maximize profitability, management has adjusted aircraft production rates, invested in innovative product development and facilities, and enhanced the group's global service network. In recent years, Gulfstream amassed a multi-year large-cabin backlog by making measured increases in aircraft production that consciously lagged strong global customer demand. This backlog provided Gulfstream increased flexibility when global economic turmoil began to negatively impact the business-jet market in late 2008 and early 2009. In response to this sudden market deterioration, we aggressively cut production levels. These production cuts were designed to stabilize the backlog and level-load production through 2009 and 2010.

The Aerospace group continuously invests in research and development (R&D) over the course of each aircraft model's lifecycle to introduce new products and first-to-market enhancements that broaden customer choice, improve aircraft performance and set new standards for customer safety, comfort and in-flight productivity. The two newest aircraft to join the Gulfstream family, the super-mid-size G250 and the ultra-large-cabin G650, demonstrate this innovation. The G250, which will replace the G200, offers the largest cabin and the longest range at the fastest speed in its class. The G650, a completely new platform at the top of the business-jet market, has the longest range, fastest speed, largest cabin and most advanced cockpit in the Gulfstream fleet. Scheduled to enter service in late 2011 and 2012, respectively, both of these aircraft met their first-flight milestones on schedule in 2009. Gulfstream's new and upgraded aircraft models are designed to minimize lifecycle costs while maximizing the commonality of parts and pilot-type ratings among the various models. For multiple-aircraft fleet operators, this uniformity reduces training and maintenance costs and enhances safety in the operation of the aircraft.

Current product-enhancement and development efforts include initiatives in advanced avionics, composites, flight-control systems, acoustics, cabin technologies and enhanced vision systems. Recent innovations include the second-generation Enhanced Vision System (EVS II) and the new Synthetic Vision-Primary Flight Display (SV-PFD), both of which assist the pilot during low-visibility conditions. EVS II, now certified for use on every Gulfstream aircraft, is a specially designed, forward-looking infrared (FLIR) camera that projects a real-world infrared image on the pilot's head-up display (HUD), while Synthetic Vision provides three-dimensional images of the terrain, runway environment and obstacles on the pilot's primary head-down display. These products work in tandem to provide pilots with unparalleled situational awareness regardless of weather, terrain or landing-field conditions.

In March 2006, we embarked on a \$400 facilities project designed to create additional R&D offices and laboratories, improve the customer sales and design center, increase aircraft-service capacity and create facilities to build next-generation aircraft in Savannah. With the completion of the new Service Center in Savannah, this multi-year project is complete. This investment is integral to Gulfstream's development and production efforts as the new purpose-built G650 manufacturing facility, which opened in March 2008, successfully produced the first three G650 test articles in 2009.

In addition to the increased service capacity in Savannah, Gulfstream's Product Support team continues to deploy a team of technicians to airports in the western hemisphere in support of emergent customer-service requirements. With the addition of Jet Aviation in 2008, we expanded the group's global service-support network to address the needs of the growing international installed fleet. An aviation services provider with aircraft service centers in more than 20 locations worldwide, Jet Aviation has enabled the Aerospace group to uphold its commitment to provide customers worldwide first-in-class service and support 24 hours a day.

Jet Aviation also expanded the Aerospace group's portfolio to include premium aircraft-outfitting operations for airframes produced by other original equipment manufacturers (OEMs). Jet Aviation performs aircraft completions and refurbishments for business jets and narrow- and wide-body commercial aircraft at locations in Europe and the United States. As a trusted provider of turnkey aircraft management and fixed-base operations (FBO) services to a broad global customer base, Jet Aviation supports the continued growth and diversification of the Aerospace portfolio.

A market leader in the business-aviation industry, the Aerospace group remains focused on:

continuously investing in innovative first-to-market technologies and products;

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providing exemplary and timely support to customers around the world; and

driving efficiencies into, and taking cost out of, aircraft production, outfitting and service processes.

4 General Dynamics 2009 Annual Report

Table of Contents

Revenues for the Aerospace group were 16 percent of our consolidated revenues in 2009, 19 percent in 2008 and 18 percent in 2007. Revenues by major products and services were as follows:

Year Ended December 31	2009	2008	2007
New aircraft and completions	\$ 3,893	\$ 4,678	\$ 4,081
Aircraft services	1,154	816	669
Pre-owned aircraft	124	18	78
Total Aerospace	\$ 5,171	\$ 5,512	\$ 4,828

COMBAT SYSTEMS

Our Combat Systems group is a global leader in the design, development, production, support and enhancement of tracked and wheeled military vehicles, weapons systems and munitions for the United States and its allies. The group's product lines include:

wheeled combat and tactical vehicles;

main battle tanks and tracked infantry vehicles;

guns and ammunition-handling systems;

ammunition and ordnance;

chemical, biological and explosive detection systems; and

drive train components and aftermarket parts.

Combat Systems has a strong foundation of products that are core platforms for customers across the combat vehicle, armaments and munitions markets. These long-term production programs have large, durable backlogs, providing the group's management the opportunity to pursue continuous process and productivity improvements to increase customer satisfaction, reduce product lifecycle costs and improve the group's financial performance. At the same time, the group applies its design and engineering expertise to develop product improvements that advance the utility and performance of these systems, while identifying and positioning itself for opportunities in emerging and adjacent markets.

Combat Systems' core military vehicle platforms consist of a variety of wheeled combat vehicles and main battle tanks. At the heart of these programs are the Stryker wheeled combat vehicle and the Abrams main battle tank. The group is the sole provider of these vehicles—two of the key ground-force assets for its primary customer, the U.S. Army. Both of these vehicles are expected to be cornerstones of the Army's force structure for the foreseeable future and offer significant opportunities for modernization and enhancements to meet the warfighter's evolving requirements. Their proven effectiveness in multiple threat environments has also created opportunities for these vehicles in international markets.

Combat Systems produces Strykers under a contract awarded in 2001, which has been modified to support the Army's vision for expanded deployment of the vehicle in new roles throughout the force. The Stryker supports numerous missions with 10 variants: infantry carrier; command and control; medical evacuation; fire support; engineering; anti-tank; mortar carrier; reconnaissance; mobile gun system (MGS); and nuclear, biological and chemical reconnaissance vehicle (NBCRV). Combat Systems is now working on a Stryker modernization contract to increase the capabilities of the fleet and ensure future compatibility with light and heavy forces.

Combat Systems continues to support the Army's evolving needs for the most capable main battle tank with technological upgrades to the Abrams, including the System Enhancement Package (SEP) and the Tank Urban Survivability Kit (TUSK). The SEP-configured tank is a digital

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platform with an enhanced command-and-control system, second-generation thermal sights and improved armor. The TUSK increases the tank's utility and crew survivability in urban warfare environments. In addition, through an innovative partnership with the Anniston Army Depot, the group's Abrams Integrated Management (AIM) program refurbishes the oldest M1A1 Abrams tanks to a like-new condition.

Complementing these combat-vehicle programs are Combat Systems' armor, weapons-system and munitions programs. The group manufactures the M2 heavy machine gun and the MK19 and MK47 grenade launchers, as well as weapons for most U.S. fighter aircraft, including all high-speed Gatling guns for fixed-wing aircraft and the Hydra-70 family of rockets. The group also holds leading or sole-source munitions supply positions for products such as:

the 120mm mortar and the 155mm and 105mm artillery projectile for the U.S. government,

conventional bomb structures for the U.S. government,

mortar systems and large-caliber ammunition for the Canadian Department of National Defence and

military propellant for the North American market.

In addition, Combat Systems is the principal second source for the U.S. military's small-caliber ammunition needs.

Beyond these long-term platform and supply programs, Combat Systems has been active in providing logistics support in the United States ongoing operations in Iraq and Afghanistan. In addition to these revenues associated with the past seven years of warfare, the group also has opportunities associated with the refurbishment of battle-damaged vehicles, the replacement of equipment that has reached the end of its service life and the replenishment of ammunition and other supplies for the U.S. armed forces. As the principal contractor for the maintenance, repair and reset of Abrams tanks and Stryker vehicles and a major U.S. munitions supplier, we expect the sustaining, recapitalizing and upgrading of U.S. forces to generate significant revenues for Combat Systems in the coming years.

General Dynamics 2009 Annual Report 5

Table of Contents

The Combat Systems group is also focused on innovative technologies and is well-positioned to participate in future development programs. For the U.S. Marine Corps, the group continues the design and testing of the Expeditionary Fighting Vehicle (EFV), an expeditionary combat platform designed to replace the service's current craft. With the EFV, the Marine Corps can launch forces from ships located beyond the horizon and proceed directly to inland objectives. The EFV offers sea maneuverability at speeds three times the current platform's capability and ground mobility equaling that of the Abrams tank, providing a level of flexibility and tactical surprise unparalleled in the current force structure. We are building seven new prototypes as part of a system design and development contract, which we expect to deliver in 2010.

The group is also a member of one of three teams awarded technology demonstration contracts for the Joint Light Tactical Vehicle (JLTV), which is intended to replace a portion of the Army's fleet of High Mobility Multi-purpose Wheeled Vehicles (HMMWV). The Combat Systems team was the first to complete its critical design review for the JLTV in 2009. In addition, we are well-positioned to compete for work on the Army's next-generation Ground Combat Vehicle program, for which the customer expects to award development contracts late in 2010.

Combat Systems has a significant presence internationally and is a recognized military-vehicle integrator and leading defense-materiel provider worldwide. It has manufacturing facilities in Australia, Austria, Brazil, Canada, France, Germany, Spain and Switzerland, and has customers in more than 30 countries. The group's European business offers a broad range of products, including light- and medium-weight tracked and wheeled tactical vehicles, amphibious bridge systems, artillery systems, light weapons, ammunition and propellants. Like the group's U.S. products, many of these systems constitute key platforms employed by its customers' military forces. These include the Leopard 2E tank and the Pizarro tracked infantry vehicle, produced for the Spanish army; the Pandur II armored combat vehicle, produced for the Portuguese army and navy; the Eagle wheeled vehicle for Germany; and the Piranha wheeled armored vehicle, which the group has sold to several European countries.

Combat Systems also is experiencing increased international demand beyond Europe as a result of the demonstrated success of its fielded products. In particular, the group has contracts to provide Abrams tanks and light armored vehicles to a number of U.S. allies in the Middle East. The group is also a global manufacturer and supplier of highly engineered axles, suspensions, brakes and aftermarket parts for heavy-payload vehicles for a variety of military and commercial customers.

The Combat Systems group continues to focus on operational execution across the business as it delivers on its substantial backlog. In an environment of continuously expanding threats and evolving customer needs, including an increased emphasis on speed to market, the group remains focused on its customers' requirements and the opportunities they present.

Revenues for the Combat Systems group were 30 percent of our consolidated revenues in 2009, 28 percent in 2008 and 29 percent in 2007. Revenues by major products and services were as follows:

Year Ended December 31	2009	2008	2007
Medium armored vehicles	\$ 4,225	\$ 3,570	\$ 3,265
Main battle tanks	1,670	1,567	1,430
Munitions and propellant	1,313	1,278	1,276
Engineering and development	961	676	598
Rockets and missile components	469	394	294
Armament and detection systems	459	580	761
Drive train components and other	548	129	173
Total Combat Systems	\$ 9,645	\$ 8,194	\$ 7,797

MARINE SYSTEMS

Our Marine Systems group designs, builds and supports submarines and surface ships for the U.S. Navy and commercial ships for Jones Act customers. The group is one of two primary shipbuilders for the Navy. The group's diverse portfolio of platforms and capabilities includes:

nuclear-powered submarines (Virginia Class);

surface combatants (DDG-51, DDG-1000, LCS);

auxiliary and combat-logistics ships (T-AKE);

commercial ships;

design and engineering; and

overhaul, repair and lifecycle support services.

The substantial majority of Marine Systems' workload supports the U.S. Navy. These efforts include the construction of new ships and the design and development of next-generation platforms to help the customer meet evolving missions and maintain its desired fleet size, as well as maintenance and repair services to maximize the life and effectiveness of in-service ships. This business consists primarily of major ship-construction programs awarded under large, multi-ship contracts that span several years. The group's mature Navy construction programs consist of the fast-attack Virginia-class nuclear-powered submarine, the Arleigh Burke-class (DDG-51) guided-missile destroyer and the Lewis and Clark-class (T-AKE) dry cargo/ammunition combat-logistics ship.

The Virginia-class submarine is the first U.S. submarine designed to address post-Cold War threats, including capabilities tailored for both open-ocean and littoral missions. These stealthy ships are well-suited for a variety of global assignments, including intelligence gathering, special-operations missions and sea-based missile launch.

Table of Contents

The Virginia-class program includes 30 submarines, which the customer is procuring in multi-ship blocks. The group, in conjunction with an industry partner that shares in the construction of these vessels, has delivered the first six of 18 boats under contract. The remaining 12 boats extend deliveries through 2018. As a result of U.S. combatant-commander requirements, strong congressional support, innovative cost-saving design and production efforts, and successful program execution, the group is scheduled to build two submarines per year starting in 2011, which will double the current submarine workload.

Marine Systems also is the lead designer and producer of Arleigh Burke destroyers, a sophisticated class of surface combatants and the only active destroyer in the Navy's global surface fleet. During 2009, we delivered *USS Wayne E. Meyer*, the 31st of 34 DDG-51 ships the Navy has contracted with us to build. The three remaining ships are scheduled for delivery in 2010 and 2011.

The group's T-AKE combat-logistics ship supports multiple missions for the Navy, including replenishment at sea for U.S. and NATO operating forces around the world. T-AKE is the first Navy ship to incorporate proven commercial marine technologies such as integrated electric-drive propulsion. These technologies are designed to minimize T-AKE operations and maintenance costs over an expected 40-year life. The group has delivered the first eight of these ships, including two in 2009. Work is underway on the remaining four ships currently under contract, with deliveries scheduled through 2011. The Navy funded long-lead material procurement in 2009 for two additional ships under the contract, and we expect to receive construction contracts for these two ships in 2010.

The Marine Systems group participates in the development of technologies and naval platforms for the future. The group continues to apply its design and engineering expertise to advance next-generation submarine capabilities. These efforts include initial concept studies for the development of the next-generation ballistic missile submarine (SSBN). This new class of SSBN is expected to replace the current Ohio Class of ballistic missile submarines. Marine Systems also leads a joint Navy-Defense Advanced Research Projects Agency (DARPA) initiative to reduce the cost of future submarines by identifying and overcoming technological barriers. Under this initiative, the group is developing technologies to propel submarines with external electric motors, reduce the ship's infrastructure and improve its sensors.

Marine Systems also is participating in a number of programs in support of the Navy's efforts to renew its surface combatant fleet. The group is completing the design and has started construction of the next-generation guided-missile destroyer, the DDG-1000 Zumwalt Class. The group is building the first DDG-1000 destroyer at its Bath, Maine, shipyard and is negotiating contracts with the Navy for construction of the second and third ships, both of which have been fully funded.

Marine Systems leads one of two industry teams awarded contracts for the design and construction of the Littoral Combat Ship (LCS), a new high-speed surface warship designed to address emerging coastal-water threats. Marine Systems' LCS is well-suited to accommodate the speed, draft and cargo capacity requirements of this new class of warship. The group delivered its first ship in the fourth quarter of 2009. We are currently working on the remaining ship in backlog, which is scheduled to be delivered in 2012.

In addition to these design and construction programs, the Marine Systems group provides comprehensive ship and submarine overhaul, repair and lifecycle support services to extend the service life of these vessels and maximize the value of these ships to the customer. The group operates the only full-service maintenance and repair shipyard on the West Coast, positioning us to support the Navy's rebalancing of its surface force toward the Pacific Fleet. The group also provides international allies with program management, planning and engineering design support for submarine and surface-ship construction programs.

Beyond its Navy programs, Marine Systems designs and produces ships for commercial customers to meet the Jones Act requirement that ships carrying cargo between U.S. ports be built in U.S. shipyards. Marine Systems currently has a contract to build five product-carrier ships. These product carriers are based on a design the group obtained through a strategic partnership with an experienced international commercial shipyard. The partnership allows Marine Systems to offer proven commercial ship designs to customers, to share best practices that improve efficiency and throughput, and to achieve cost savings on materials procured through the partnership. The group has delivered the first three ships and expects to deliver the remaining ships by the end of 2010. With the existing fleet of Jones Act ships in need of replacement due to age and environmental regulations, we are marketing this proven product to new customers.

To further the group's goals of efficiency and continuous process improvement, we are committed to strategic investments in our shipyards in partnership with the Navy and local governments. In addition, the Marine Systems group continues to leverage its design and engineering expertise across its shipyards to improve program execution and generate cost savings. This knowledge sharing enables the group to use resources more efficiently and drive process improvements throughout the business. The group is well-positioned to effectively fulfill the long-term ship-construction and support requirements of its Navy and commercial customers.

Revenues for the Marine Systems group were 20 percent of our consolidated revenues in 2009, 19 percent in 2008 and 18 percent in 2007. Revenues by major products and services were as follows:

Year Ended December 31

Nuclear-powered submarines
 Surface combatants
 Auxiliary and commercial ships
 Repair and other services
 Total Marine Systems

	2009	2008	2007
Nuclear-powered submarines	\$ 3,173	\$ 2,579	\$ 2,355
Surface combatants	1,278	1,195	1,112
Auxiliary and commercial ships	1,179	1,192	953
Repair and other services	733	590	573
Total Marine Systems	\$ 6,363	\$ 5,556	\$ 4,993

General Dynamics 2009 Annual Report 7

Table of Contents

INFORMATION SYSTEMS AND TECHNOLOGY

Our Information Systems and Technology group provides technologies, products and services that support a wide range of government and commercial digital-communication and information-sharing needs. Since we created the group in 1998, we have evolved its product and service offerings through almost 30 acquisitions and internal development into a three-part portfolio that includes tactical and strategic mission systems, information technology and mission services, and intelligence mission systems.

Tactical and strategic mission systems The group designs, manufactures and delivers trusted and secure communications network systems, ruggedized computers, command-and-control systems and operational hardware to customers within the U.S. Department of Defense, the intelligence community and federal civilian agencies, and to international customers.

This market is characterized by programs designed to enhance warfighter communication, such as the U.S. Army's Warfighter Information Network-Tactical (WIN-T) and the Joint Tactical Radio System (JTRS) Handheld, Manpack, Small Form Fit (HMS) network radios. WIN-T is the Army's primary battlefield communications network. As the prime contractor for this program, we are responsible for the design, engineering, integration, production, program management and support of the network. Using ground and satellite communications links, WIN-T provides commanders with the digital communications services they need to access intelligence information, initiate battle plans, collaborate with other military elements, issue orders and monitor the status of their forces.

The JTRS program provides interoperable communications among all branches of the U.S. military on multi-channel, software-defined radios. The group is developing JTRS HMS radios, which connect soldiers, sensors and robotics platforms to the Army's network, enhancing the dismounted soldier's situational awareness and combat effectiveness. The JTRS HMS program successfully navigated several milestones in 2009, including intensive customer testing and the successful addition of the Soldier Radio Waveform, in preparation for initial production.

The group provides many of these capabilities to non-U.S. customers as well, including the United Kingdom's Ministry of Defence, the Canadian Department of National Defence, the Royal Netherlands Marine Corps and the Romanian Ministry of Defense.

Information Systems and Technology's leadership in this market results from decades of experience in designing, building and supporting previous generations of communications technologies. The group's expertise and record of innovation encompass the key technologies that enable design and deployment of tactical networking systems. These include:

ruggedized mobile computing solutions with embedded wireless capability;

information assurance and encryption technologies, products, systems and services that ensure the security and integrity of digital communications worldwide;

digital switching, broadband networking and automated network management; and

fixed and mobile radio and satellite communications systems and antenna technologies.

In addition to the work we do for the defense and intelligence communities, Information Systems and Technology provides significant support to the Department of Homeland Security and federal civilian markets through programs such as Rescue 21 and the Integrated Wireless Network (IWN) contract. Rescue 21, a state-of-the-art search-and-rescue system that the U.S. Coast Guard uses to locate distressed mariners and manage rescue assets, has been deployed to 24 Coast Guard sectors covering nearly 35,000 miles of U.S. coastline. The IWN program is a joint effort by the Departments of Justice, Homeland Security and the Treasury to provide a nationwide, interoperable wireless communications service in support of federal law enforcement, homeland security and first-responder operations.

Information technology and mission services The group provides mission-critical information technology (IT) and skilled mission-support services to U.S. defense and intelligence communities, federal civilian agencies and select commercial customers. The group also specializes in:

design, development and integration of wireline and wireless voice, video and data networks;

mission simulation and training services;

healthcare technology solutions; and

secure identification and credentialing capabilities.

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In this market, Information Systems and Technology has a long-standing reputation for excellence in providing technical-support personnel and domain specialists who enable customers to execute their missions effectively. For many customers, the group's employees are the on-call staff that provide technical support for both commercial desktop technology and mission-specific hardware. For other customers, our employees conceive, install and operate mission systems on a day-to-day basis. In Fort Huachuca, Arizona, for example, Information Systems and Technology employees provide training and IT support services for critical Army intelligence missions, merging live data with network-centric computer-based simulations. The group also has provided enterprise-wide IT and information management services to Naval Air Systems Command for more than 10 years as the customer's primary logistics-support contractor.

Information Systems and Technology also supplies network-modernization and IT infrastructure services to U.S. government customers. As one of the U.S. Air Force's leading partners for network modernization, for example, the group has provided IT support services to more than 75 Air Force bases. It currently supports all Air Force main operating bases. The group also has provided continuous enterprise-wide IT services and support to the U.S. Senate for more than five years.

8 General Dynamics 2009 Annual Report

Table of Contents

Information Systems and Technology is a leading provider of high-end healthcare technology solutions, including data management, analytics, claims fraud prevention and detection software, decision support and process automation that support the fast-growing needs for technology modernization of both U.S. federal agencies and commercial healthcare organizations. In Iraq, the group supports the Army's military healthcare IT mission, helping ensure continuity of care for injured soldiers by providing accurate, timely information to medical staff both in the field and at treatment facilities.

Intelligence mission systems The group provides mission-related systems integration, development and operations support to customers in the U.S. defense, intelligence, space and homeland security communities, and select allies. These include:

signals and information collection, processing and distribution systems;

special-purpose computing;

multi-level security;

data mining and fusion;

cyber security services; and

open-architecture mission systems and service-oriented architecture.

One of the group's businesses has a 50-year legacy of providing advanced fire control systems for Navy submarine programs. Capitalizing on the breadth of this maritime-domain expertise, the group developed the core mission system for the General Dynamics team's entry in the Navy's Littoral Combat Ship (LCS) competition, and it is the ship mission systems integrator on the new Joint High Speed Vessel program for the Army and the Navy.

Information Systems and Technology also is a leading provider of personnel with mission-specific experience in executing programs in the intelligence field. In partnership with the U.S. Joint Forces Command, for example, the group integrates collaborative command, control, communications, computing, intelligence, surveillance and reconnaissance (C4ISR) environments in support of worldwide training exercises.

In 2009, we acquired Axsys Technologies, Inc., expanding the group's footprint to include sensors and optical components for defense, aerospace, homeland security and high-performance commercial systems. Combining these sensors with our existing sensing and exploitation capabilities enables the group to significantly enhance customer product offerings.

The group's contracts in securing and protecting organizations from network attacks have resulted in a market-leading position in government cyber security, computer forensics, countering identity theft and preventing credit card fraud. Information Systems and Technology is the principal support contractor for the U.S. Computer Emergency Response Team (US-CERT), for example, which provides response support and defense against cyber attacks for U.S. executive branch agencies, and information sharing and collaboration with state and local government, industry and international partners. The group's capabilities in information operations, computer network defense and multi-level C4ISR-system security position it to meet emerging requirements to protect the national information infrastructure against infiltration and corruption.

The group's increasingly diversified customer base has stimulated new opportunities in each of its three principal markets, including:

the growing requirements for cyber security services among homeland security and intelligence customers;

military and federal requirements for healthcare IT services; and

the warfighter's need for improved tactical ISR and real-time intelligence to enable success against conventional and asymmetric threats. Revenues for the Information Systems and Technology group were 34 percent of our consolidated revenues in 2009 and 2008, and 35 percent in 2007. Revenues by major products and services were as follows:

Year Ended December 31	2009	2008	2007
Tactical and strategic mission systems	\$ 4,713	\$ 4,455	\$ 4,008
IT and mission services	3,832	3,536	3,584
Intelligence mission systems	2,257	2,047	2,030
Total Information Systems and Technology	\$ 10,802	\$ 10,038	\$ 9,622

CUSTOMERS

In 2009, 71 percent of our revenues were from the U.S. government; 10 percent were from U.S. commercial customers; 9 percent were directly from international. Vizi has expressly disclaimed in filings with the SEC, Defendants are knowingly creating a false and misleading narrative that Vizi has the same or greater economic risk as other RCM stockholders who have true, economic ownership of their shares.

(h) At page 15 of the Proxy, Defendants state their director nominees have the *experience, qualifications and objectivity necessary to fully explore available opportunities to unlock value for stockholders*. This statement is materially false and misleading in violation of Rule 14a-9. One of Defendants' director nominees, Vizi, is 29 years old, apparently runs Legion Partners from his apartment, has no industry experience relevant to the industries in which RCM participates and has never served in a management or board member role for any public company. Defendants do not appropriately disclose these material factors concerning Vizi's experience and qualifications to RCM's stockholders. Moreover, Defendants do not disclose Vizi's undisclosed fiduciary obligations resulting from his firm's investment advisory agreement

with certain other Defendants. Defendants also fail to disclose material factors concerning the qualifications and objectivity of the other director nominee put forth by Defendants, Ballou. For example, the Proxy fails to disclose information about Ballou that stockholders may consider material in their voting decision, including the fact that while serving as President and Chief Executive Officer of CDI, Ballou orchestrated CDI's unsolicited hostile takeover attempt to seize control of RCM at an inadequate price. The Proxy also trumpets Ballou's management experience, but fails to inform RCM stockholders that during Ballou's tenure at CDI, the company was the target of a number of governmental investigations that caused CDI to pay millions of dollars in settlements and fines, including \$2.4 million to the U.S. Department of Justice to resolve potential claims against it under the U.S. False Claims Act and a \$2.5 million fine to the United Kingdom's Office of Fair Trading related to anti-competitive behavior. Given RCM's efforts to grow its revenue from governmental entities, both in the United States and abroad, the omission of these troubling material facts concerning a director nominee renders Defendants' Proxy false and misleading in violation of Rule 14a-9.

THE FALSE AND MISLEADING DEFINITIVE ADDITIONAL PROXY MATERIALS

39. On November 7, 2013, Defendants filed Definitive Additional Proxy Materials (the "Additional Proxy Materials") with the SEC.
40. The Additional Proxy Materials continue Defendants' pattern of issuing public disclosures containing materially false and misleading statements and omissions in violation of the federal securities laws.
41. For example, on Page 5 of the Additional Proxy Materials, Defendants state: "Mr. Vizi is a seasoned investor with extensive experience successfully allocating capital, designing

and assessing executive compensation plans, and working with Boards to implement corporate governance best practices in both public and private markets. Defendants then contrast Vizi's supposed extensive experience with the claim that one of the incumbent nominees has no public company board experience other than with RCM. Defendants' statements are materially false and misleading in violation of Rule 14a-9. In fact, Vizi, who is 29 years old and has no industry experience relevant to the industries in which RCM participates, *has never served in a management or board member role for any public company*. Defendants' assertions concerning corporate governance best practices also are misleading in light of the omitted fact that Vizi has certain contractual and fiduciary obligations to Defendants through an investment advisory agreement that preclude him from fully acting in the best interests of all RCM stockholders.

42. Similarly, at Page 5 of the Additional Proxy Materials, Defendants omit important information relevant to Ballou's background, including (a) the fact that while serving as President and Chief Executive Officer of CDI, Ballou orchestrated CDI's unsolicited hostile takeover attempt to seize control of RCM at an inadequate price; and (b) the fact that during Ballou's tenure at CDI, the company was the target of a number of governmental investigations that caused CDI to pay millions of dollars in settlements and fines, including \$2.4 million to the U.S. Department of Justice to resolve potential claims against it under the U.S. False Claims Act and a \$2.5 million fine to the United Kingdom's Office of Fair Trading related to anti-competitive behavior. The omitted information is important and material information that should have been disclosed to RCM's stockholders. Defendants' failure to do so renders the Additional Proxy Materials false and misleading in violation of Rule 14a-9.

COUNT I

**(VIOLATION OF SECTION 13(D) OF THE EXCHANGE ACT BY ALL
DEFENDANTS)**

43. RCM repeats and realleges the allegations of Paragraphs 1-42 as if set forth fully herein.

44. Section 13(d) of the Exchange Act, and the rules and regulations promulgated by the SEC thereunder, requires Defendants, and each of them, to provide complete, accurate and timely disclosure of their purposes, plans and intentions with respect to their acquisition of RCM shares and to provide full, complete and truthful information critical to stockholders in making informed investment decisions about the future direction of the Company. The rules and regulations further require that the reporting persons disclose such further material information as is necessary to make the other information provided in their disclosure not misleading.

45. As alleged herein, Defendants, and each of them, violated Section 13(d) of the Exchange Act and the rules promulgated thereunder by failing to fully, truthfully and accurately disclose their purposes, plans and intentions with respect to their acquisition of RCM shares and the qualifications and conflicting loyalties of their director nominees.

46. The omissions and misrepresentations in the Defendants' Schedule 13D, including the amendments thereto, concern information that is material to RCM stockholders and to the investing public.

47. RCM has no adequate remedy at law and the investing public will be irreparably harmed in the absence of the declaratory and equitable relief as prayed for herein. Injunctive relief also is appropriate to deter Defendants from continuing their misconduct.

COUNT II

**(VIOLATION OF SECTION 14(A) OF THE EXCHANGE ACT BY ALL
DEFENDANTS)**

48. RCM repeats and realleges the allegations of Paragraphs 1-47 as if fully set forth herein.

49. In disseminating the false and misleading Proxy described herein, Defendants made untrue statements of material facts and omitted to state material facts necessary to make the statements that were made therein not misleading in violation of Section 14(a) of the Exchange Act and SEC Rule 14a-9 promulgated thereunder.

50. A reasonable stockholder would consider the false and misleading statements and omissions important in deciding how to vote in this contested director election. The omissions and misstatements significantly alter the total mix of information made available to RCM's stockholders.

51. While Defendants were at least negligent in filing the Proxy containing these materially false and misleading statements, the fact that they have continued to solicit RCM stockholders based on the Proxy even after being advised of the deficiencies contained therein suggests that their conduct is knowing, willful and wanton.

52. By reason of the foregoing, Defendants have violated Section 14(a) of the Exchange Act and SEC Rule 14a-9(a) promulgated thereunder.

53. RCM has no adequate remedy at law and the investing public will be irreparably harmed in the absence of the declaratory and equitable relief as prayed for herein. Injunctive

relief also is appropriate to deter Defendants from continuing their misconduct.

COUNT III

(VIOLATION OF SECTION 20(A) OF THE EXCHANGE ACT BY VIZI

AND O CONNELL)

54. RCM repeats and realleges the allegations of Paragraphs 1-53 as if fully set forth herein.

55. Defendant Vizi maintains discretionary authority to control or influence the conduct of Legion Partners, O Connell and the defendant group and did control or influence their actions and omissions described herein in violation of Sections 13(d) and 14(a) of the Exchange Act.

56. Defendant O Connell maintains discretionary authority to control or influence the conduct of IRS 19, M2O, Foundation and the Trust and the defendant group and did control or influence their actions and omissions described herein in violation of Sections 13(d) and 14(a) of the Exchange Act.

57. Defendants Vizi and O Connell are controlling persons within the meaning of Section 20(a) of the Exchange Act and are liable for the violations of Sections 13(d) and 14(a) of the Exchange Act as set forth above.

PRAYER FOR RELIEF

WHEREFORE, RCM respectfully requests that this Court enter an order:

(a) Adjudging and declaring that Defendants, both individually and as a group, have violated Sections 13(d) and 14(a) of the Exchange Act and the rules and regulations

promulgated by the SEC thereunder due to their failure to file timely, accurate and complete disclosures in violation of the Exchange Act;

- (b) Directing that Defendants file truthful and accurate Schedule 13D and Schedule 14A disclosures, in compliance with the applicable rules and regulations, forthwith;

- (c) Preliminarily and permanently enjoining Defendants, their servants, employees, agents and attorneys, and all persons acting for them or on their behalf or in concert or participation with them, from directly or indirectly: (i) violating Sections 13(d) and/or 14(a) of the Exchange Act and the rules and regulations promulgated thereunder; and (ii) engaging in any further activities with respect to their shares of RCM common stock until they have made adequate corrective disclosures as required by the Exchange Act;

- (d) Enjoining Defendants from acquiring additional shares of RCM common stock until accurate and compliant Schedule 13D and Schedule 14A disclosures have been filed;

- (e) Enjoining Defendants from voting any proxies received prior to such time as the Court ascertains that Defendants have filed accurate and compliant Schedule 13D and Schedule 14A disclosures;

- (f) Ordering expedited discovery with respect to the claims alleged herein;

- (g) Awarding RCM its costs and disbursements, including reasonable attorneys' fees, incurred in the prosecution of this action;
and

- (h) Granting RCM such other and further relief as the Court deems just and equitable in the circumstances.

VERIFICATION PURSUANT TO L. CIV. R. 11.2

To the best of my knowledge, the matter in controversy is not the subject of any other action pending in any court, or of any pending arbitration of administrative proceedings, in accordance with Local Civil Rule 11.2. I verify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Dated: November 8, 2013

Respectfully submitted,

/s/ John McGahren
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Counsel for Plaintiff RCM Technologies, Inc.

VERIFICATION

I, Kevin Miller, declare under the penalty of perjury pursuant to 28 U.S.C. § 1746 that the following is true and correct:

1. I am the Chief Financial Officer of Plaintiff RCM Technologies, Inc.

2. I have read the foregoing Verified Complaint and the factual statements contained therein are true and accurate to the best of my knowledge, except as to those matters stated on information or belief, and as to those matters, I believe them to be true.

By:

/s/ Kevin Miller
Kevin Miller

Executed on: November 8, 2013
