

# GENERAL DYNAMICS

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

## FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2020

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

13-1673581

I.R.S. Employer Identification No.

11011 Sunset Hills Road Reston, Virginia

Address of principal executive offices

20190

Zip code

(703) 876-3000

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	GD	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

286,972,150 shares of the registrant's common stock, \$1 par value per share, were outstanding on September 27, 2020.

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## PART I – FINANCIAL INFORMATION

### ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)

(Dollars in millions, except per-share amounts)	Three Months Ended	
	September 27, 2020	September 29, 2019
<b>Revenue:</b>		
Products	\$ 5,454	\$ 5,789
Services	3,977	3,972
	9,431	9,761
<b>Operating costs and expenses:</b>		
Products	(4,452)	(4,640)
Services	(3,384)	(3,333)
General and administrative (G&A)	(511)	(572)
	(8,347)	(8,545)
<b>Operating earnings</b>	1,084	1,216
Other, net	12	(12)
Interest, net	(118)	(114)
<b>Earnings before income tax</b>	978	1,090
Provision for income tax, net	(144)	(177)
<b>Net earnings</b>	\$ 834	\$ 913
<b>Earnings per share</b>		
Basic	\$ 2.91	\$ 3.17
Diluted	\$ 2.90	\$ 3.14

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

## CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)

(Dollars in millions, except per-share amounts)	Nine Months Ended	
	September 27, 2020	September 29, 2019
<b>Revenue:</b>		
Products	\$ 15,849	\$ 16,441
Services	11,595	12,136
	27,444	28,577
<b>Operating costs and expenses:</b>		
Products	(13,038)	(13,217)
Services	(9,931)	(10,258)
G&A	(1,609)	(1,782)
	(24,578)	(25,257)
<b>Operating earnings</b>	2,866	3,320
Other, net	44	18
Interest, net	(357)	(350)
<b>Earnings before income tax</b>	2,553	2,988
Provision for income tax, net	(388)	(524)
<b>Net earnings</b>	\$ 2,165	\$ 2,464
<b>Earnings per share</b>		
Basic	\$ 7.54	\$ 8.55
Diluted	\$ 7.52	\$ 8.47

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
<b>Net earnings</b>	\$ 834	\$ 913	\$ 2,165	\$ 2,464
Gains on cash flow hedges	110	2	181	70
Foreign currency translation adjustments	139	(108)	60	48
Change in retirement plans' funded status	66	66	218	188
Other comprehensive income (loss), pretax	315	(40)	459	306
Provision for income tax, net	(43)	(15)	(95)	(59)
<b>Other comprehensive income (loss), net of tax</b>	272	(55)	364	247
<b>Comprehensive income</b>	\$ 1,106	\$ 858	\$ 2,529	\$ 2,711

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

## CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited)	
	September 27, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and equivalents	\$ 1,469	\$ 902
Accounts receivable	3,863	3,544
Unbilled receivables	8,143	7,857
Inventories	6,402	6,306
Other current assets	988	1,171
Total current assets	20,865	19,780
<b>Noncurrent assets:</b>		
Property, plant and equipment, net	4,863	4,475
Intangible assets, net	2,162	2,315
Goodwill	19,889	19,677
Other assets	2,479	2,594
Total noncurrent assets	29,393	29,061
<b>Total assets</b>	<b>\$ 50,258</b>	<b>\$ 48,841</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt and current portion of long-term debt	\$ 3,394	\$ 2,920
Accounts payable	2,613	3,162
Customer advances and deposits	6,086	7,148
Other current liabilities	4,027	3,571
Total current liabilities	16,120	16,801
<b>Noncurrent liabilities:</b>		
Long-term debt	9,978	9,010
Other liabilities	9,444	9,453
Commitments and contingencies (see Note M)		
Total noncurrent liabilities	19,422	18,463
<b>Shareholders' equity:</b>		
Common stock	482	482
Surplus	3,082	3,039
Retained earnings	32,812	31,633
Treasury stock	(17,805)	(17,358)
Accumulated other comprehensive loss	(3,855)	(4,219)
<b>Total shareholders' equity</b>	<b>14,716</b>	<b>13,577</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 50,258</b>	<b>\$ 48,841</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Nine Months Ended	
	September 27, 2020	September 29, 2019
<b>Cash flows from operating activities - continuing operations:</b>		
Net earnings	\$ 2,165	\$ 2,464
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation of property, plant and equipment	376	352
Amortization of intangible and finance lease right-of-use assets	267	273
Equity-based compensation expense	91	103
Deferred income tax benefit	(112)	(72)
(Increase) decrease in assets, net of effects of business acquisitions:		
Accounts receivable	(336)	253
Unbilled receivables	(239)	(1,603)
Inventories	(134)	(646)
Increase (decrease) in liabilities, net of effects of business acquisitions:		
Accounts payable	(558)	(164)
Customer advances and deposits	(906)	(565)
Other current liabilities	360	191
Other, net	322	1
Net cash provided by operating activities	1,296	587
<b>Cash flows from investing activities:</b>		
Capital expenditures	(622)	(606)
Other, net	33	2
Net cash used by investing activities	(589)	(604)
<b>Cash flows from financing activities:</b>		
Proceeds from fixed-rate notes	3,960	—
Repayment of fixed-rate notes	(2,000)	—
Dividends paid	(925)	(858)
Purchases of common stock	(501)	(231)
Repayment of floating-rate notes	(500)	—
Proceeds from commercial paper, gross (maturities greater than 3 months)	420	—
Repayment of commercial paper, gross (maturities greater than 3 months)	(420)	—
Proceeds from commercial paper	—	947
Other, net	(134)	207
Net cash (used) provided by financing activities	(100)	65
Net cash used by discontinued operations	(40)	(37)
<b>Net increase in cash and equivalents</b>	<b>567</b>	<b>11</b>
<b>Cash and equivalents at beginning of period</b>	<b>902</b>	<b>963</b>
<b>Cash and equivalents at end of period</b>	<b>\$ 1,469</b>	<b>\$ 974</b>
<b>Supplemental cash flow information:</b>		
Income tax payments, net	\$ (345)	\$ (487)
Interest payments	\$ (261)	\$ (271)

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





## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Dollars in millions)	Three Months Ended					
	Common Stock		Retained	Treasury	Accumulated Other Comprehensive	Total
	Par	Surplus	Earnings	Stock	Loss	Shareholders' Equity
<b>June 28, 2020</b>	\$ 482	\$ 3,050	\$ 32,294	\$ (17,809)	\$ (4,127)	\$ 13,890
Net earnings	—	—	834	—	—	834
Cash dividends declared	—	—	(316)	—	—	(316)
Equity-based awards	—	32	—	4	—	36
Other comprehensive income	—	—	—	—	272	272
<b>September 27, 2020</b>	\$ 482	\$ 3,082	\$ 32,812	\$ (17,805)	\$ (3,855)	\$ 14,716

<b>June 30, 2019</b>	\$ 482	\$ 2,959	\$ 30,291	\$ (17,379)	\$ (3,476)	\$ 12,877
Net earnings	—	—	913	—	—	913
Cash dividends declared	—	—	(295)	—	—	(295)
Equity-based awards	—	40	—	33	—	73
Other comprehensive loss	—	—	—	—	(55)	(55)
<b>September 29, 2019</b>	\$ 482	\$ 2,999	\$ 30,909	\$ (17,346)	\$ (3,531)	\$ 13,513

(Dollars in millions)	Nine Months Ended					
	Common Stock		Retained	Treasury	Accumulated Other Comprehensive	Total
	Par	Surplus	Earnings	Stock	Loss	Shareholders' Equity
<b>December 31, 2019</b>	\$ 482	\$ 3,039	\$ 31,633	\$ (17,358)	\$ (4,219)	\$ 13,577
Cumulative-effect adjustment*	—	—	(37)	—	—	(37)
Net earnings	—	—	2,165	—	—	2,165
Cash dividends declared	—	—	(949)	—	—	(949)
Equity-based awards	—	43	—	54	—	97
Shares purchased	—	—	—	(501)	—	(501)
Other comprehensive income	—	—	—	—	364	364
<b>September 27, 2020</b>	\$ 482	\$ 3,082	\$ 32,812	\$ (17,805)	\$ (3,855)	\$ 14,716

<b>December 31, 2018</b>	\$ 482	\$ 2,946	\$ 29,326	\$ (17,244)	\$ (3,778)	\$ 11,732
Net earnings	—	—	2,464	—	—	2,464
Cash dividends declared	—	—	(881)	—	—	(881)
Equity-based awards	—	53	—	82	—	135
Shares purchased	—	—	—	(184)	—	(184)
Other comprehensive income	—	—	—	—	247	247
<b>September 29, 2019</b>	\$ 482	\$ 2,999	\$ 30,909	\$ (17,346)	\$ (3,531)	\$ 13,513

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

\* Reflects the cumulative effect of Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which we adopted on January 1, 2020. See Note A for additional details.



## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per-share amounts or unless otherwise noted)

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization.** 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 (IT) services; command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions; and shipbuilding and ship repair.

**Basis of Consolidation and Classification.** The unaudited Consolidated Financial Statements include the accounts of General Dynamics Corporation and our wholly owned and majority-owned subsidiaries. We eliminate all inter-company balances and transactions in the unaudited Consolidated Financial Statements. Some prior-year amounts have been reclassified among financial statement accounts or disclosures to conform to the current-year presentation.

Consistent with industry practice, we classify assets and liabilities related to long-term contracts as current, even though some of these amounts may not be realized within one year.

Further discussion of our significant accounting policies is contained in the other notes to these financial statements.

**Interim Financial Statements.** The unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. These rules and regulations permit some of the information and footnote disclosures included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) to be condensed or omitted.

Our fiscal quarters are typically 13 weeks in length. Because our fiscal year ends on December 31, the number of days in our first and fourth quarters varies slightly from year to year. Operating results for the three- and nine-month periods ended September 27, 2020, are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

The unaudited Consolidated Financial Statements contain all adjustments that are of a normal recurring nature necessary for a fair presentation of our results of operations and financial condition for the three- and nine-month periods ended September 27, 2020, and September 29, 2019.

These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019.

**Use of Estimates and Other Uncertainties.** The Coronavirus (COVID-19) outbreak has caused significant disruptions to national and global economies and government activities. Our businesses have been designated as critical infrastructure by the U.S. government and many non-U.S. governments and, as such, are required to stay open. Within our Aerospace segment, quarantine and travel restrictions in connection with the outbreak have impacted the timing of aircraft deliveries, and the economic consequences of COVID-19 have impacted demand. Our defense business has also experienced disruptions, such as customer site closures, travel restrictions and social distancing requirements, which have impacted contract execution. We have instituted various initiatives throughout the company as part of our business continuity programs, and we continue to work to mitigate risk when disruptions occur. While we expect this situation



to be temporary, any longer-term impact to our business is currently unknown due to the uncertainty around the outbreak's duration and its broader impact.

The nature of our business requires that we make estimates and assumptions in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. The COVID-19 outbreak has impacted these estimates and assumptions and will continue to do so. The accounting for long-term contracts requires the use of estimates (see Note C). Our estimates at the end of the third quarter included impacts from the disruptions caused by COVID-19. Given the uncertainties around the pandemic, including its duration and potential future disruptions to our supply chain or workforce, it is reasonably possible that the actual impact of the pandemic on contract costs could be materially different than our current estimates. The United States and some other governments have taken steps to provide relief. Where our customer has agreed to reimburse certain costs, such as provided for by the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), we have included those recoveries in our estimates of revenue. To the extent the U.S. government provides for reimbursement of additional costs through legislation and the U.S. Department of Defense (DoD) has available funds, we will seek reimbursement as appropriate.

The company is also monitoring for other long-term impacts of the pandemic, such as the impairment of goodwill, intangibles or other long-lived assets. As of the end of the quarter, we have not identified a triggering event requiring an impairment test.

**Property, Plant and Equipment, Net.** Property, plant and equipment (PP&E) is carried at historical cost, net of accumulated depreciation. Net PP&E consisted of the following:

	September 27, 2020	December 31, 2019
PP&E	\$ 10,361	\$ 9,761
Accumulated depreciation	(5,498)	(5,286)
PP&E, net	\$ 4,863	\$ 4,475

**Accounting Standards Updates.** Effective January 1, 2020, we adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 significantly changes how entities account for credit losses for financial assets and certain other instruments, including trade receivables and contract assets, that are not measured at fair value through net income. The ASU requires a number of changes to the assessment of credit losses, including the utilization of an expected credit loss model, which requires consideration of a broader range of information to estimate expected credit losses over the entire lifetime of the asset, including losses where probability is considered remote. Additionally, the standard requires the estimation of lifetime expected losses for trade receivables and contract assets that are classified as current. We adopted the standard on a modified retrospective basis and recognized the cumulative effect as a \$37 decrease to retained earnings on the date of adoption.

There are other accounting standards that have been issued by the Financial Accounting Standards Board but are not yet effective. These standards are not expected to have a material impact on our results of operations, financial condition or cash flows.

## B. GOODWILL AND INTANGIBLE ASSETS

**Goodwill.** The changes in the carrying amount of goodwill by reporting unit were as follows:

	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Goodwill
<b>December 31, 2019 (a)</b>	\$ 2,831	\$ 2,681	\$ 9,700	\$ 4,168	\$ 297	\$ 19,677
Acquisitions (b)	73	49	—	—	—	122
Other (c)	87	(6)	—	9	—	90
<b>September 27, 2020 (a)</b>	\$ 2,991	\$ 2,724	\$ 9,700	\$ 4,177	\$ 297	\$ 19,889

- (a) Goodwill in the Information Technology and Mission Systems reporting units is net of \$536 and \$1.3 billion of accumulated impairment losses, respectively.  
 (b) Includes businesses acquired in our Aerospace and Combat Systems segments and adjustments during the purchase price allocation period.  
 (c) Consists primarily of adjustments for foreign currency translation.

**Intangible Assets.** Intangible assets consisted of the following:

	Gross Carrying Amount (a)	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount (a)	Accumulated Amortization	Net Carrying Amount
	September 27, 2020			December 31, 2019		
Contract and program intangible assets (b)	\$ 3,745	\$ (1,891)	\$ 1,854	\$ 3,776	\$ (1,779)	\$ 1,997
Trade names and trademarks	496	(216)	280	474	(195)	279
Technology and software	130	(103)	27	164	(126)	38
Other intangible assets	159	(158)	1	159	(158)	1
<b>Total intangible assets</b>	<b>\$ 4,530</b>	<b>\$ (2,368)</b>	<b>\$ 2,162</b>	<b>\$ 4,573</b>	<b>\$ (2,258)</b>	<b>\$ 2,315</b>

- (a) Changes in gross carrying amounts consist primarily of adjustments for acquired and divested intangible assets and foreign currency translation.  
 (b) Consists of acquired backlog and probable follow-on work and associated customer relationships.

Amortization expense is included in operating costs and expenses in the Consolidated Statement of Earnings. Amortization expense for intangible assets was \$65 and \$196 for the three- and nine-month periods ended September 27, 2020, and \$69 and \$209 for the three- and nine-month periods ended September 29, 2019, respectively.

## C. REVENUE

**Performance Obligations.** A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account for revenue. A contract's transaction price is allocated to each distinct performance obligation within that contract and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Some of our contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the product life cycle (development, production, maintenance and support). For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.



Contract modifications are routine in the performance of our contracts. Contracts are often modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct and, therefore, are accounted for as part of the existing contract.

Our performance obligations are satisfied over time as work progresses or at a point in time. Revenue from products and services transferred to customers over time accounted for 77% and 78% of our revenue for the three- and nine-month periods ended September 27, 2020, and 72% and 74% of our revenue for the three- and nine-month periods ended September 29, 2019, respectively. Substantially all of our revenue in the defense segments is recognized over time, because control is transferred continuously to our customers. Typically, revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, overhead and, when appropriate, G&A expenses.

Revenue from goods and services transferred to customers at a point in time accounted for 23% and 22% of our revenue for the three- and nine-month periods ended September 27, 2020, and 28% and 26% of our revenue for the three- and nine-month periods ended September 29, 2019, respectively. The majority of our revenue recognized at a point in time is for the manufacture of business-jet aircraft in our Aerospace segment. Revenue on these contracts is recognized when the customer obtains control of the asset, which is generally upon delivery and acceptance by the customer of the fully outfitted aircraft.

On September 27, 2020, we had \$81.5 billion of remaining performance obligations, which we also refer to as total backlog. We expect to recognize approximately 45% of our remaining performance obligations as revenue by year-end 2021, an additional 30% by year-end 2023 and the balance thereafter.

**Contract Estimates.** The majority of our revenue is derived from long-term contracts and programs that can span several years. Accounting for long-term contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over the life of the contract.

Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer.

The nature of our contracts gives rise to several types of variable consideration, including claims and award and incentive fees. We include in our contract estimates additional revenue for submitted contract modifications or claims against the customer when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. In evaluating these criteria, we consider the contractual/legal basis for the claim, the cause of any additional costs incurred, the reasonableness of those costs and the objective evidence available to support the claim. We include award or incentive fees in the estimated transaction price when there is a basis to reasonably estimate the amount of the fee. These estimates are based on historical award experience, anticipated performance and our best judgment at the time. Because of our certainty in estimating these amounts, they are included in the transaction price of our contracts and the associated remaining performance obligations.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on





profit recorded to date on a contract is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the period it is identified.

The impact of adjustments in contract estimates on our operating earnings can be reflected in either operating costs and expenses or revenue. The aggregate impact of adjustments in contract estimates increased our revenue, operating earnings and diluted earnings per share as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Revenue	\$ 126	\$ 95	\$ 270	\$ 263
Operating earnings	84	81	169	220
Diluted earnings per share	\$ 0.23	\$ 0.22	\$ 0.46	\$ 0.60

No adjustment on any one contract was material to the unaudited Consolidated Financial Statements for the three- and nine-month periods ended September 27, 2020, or September 29, 2019.

**Revenue by Category.** Our portfolio of products and services consists of approximately 11,000 active contracts. The following series of tables presents our revenue disaggregated by several categories.

Revenue by major products and services was as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Aircraft manufacturing and completions	\$ 1,546	\$ 1,972	\$ 4,303	\$ 5,304
Aircraft services	429	523	1,337	1,567
Total Aerospace	1,975	2,495	5,640	6,871
Military vehicles	1,179	1,137	3,428	3,361
Weapons systems, armament and munitions	496	474	1,444	1,336
Engineering and other services	126	129	391	338
Total Combat Systems	1,801	1,740	5,263	5,035
IT services	2,029	2,071	5,901	6,398
Total Information Technology	2,029	2,071	5,901	6,398
C4ISR solutions	1,221	1,220	3,518	3,655
Total Mission Systems	1,221	1,220	3,518	3,655
Nuclear-powered submarines	1,704	1,567	4,972	4,482
Surface ships	461	402	1,433	1,376
Repair and other services	240	266	717	760
Total Marine Systems	2,405	2,235	7,122	6,618
Total revenue	\$ 9,431	\$ 9,761	\$ 27,444	\$ 28,577



Revenue by contract type was as follows:

Three Months Ended September 27, 2020	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Revenue
Fixed-price	\$ 1,821	\$ 1,552	\$ 806	\$ 694	\$ 1,641	\$ 6,514
Cost-reimbursement	—	231	846	478	763	2,318
Time-and-materials	154	18	377	49	1	599
Total revenue	\$ 1,975	\$ 1,801	\$ 2,029	\$ 1,221	\$ 2,405	\$ 9,431
Three Months Ended September 29, 2019						
Fixed-price	\$ 2,306	\$ 1,501	\$ 824	\$ 719	\$ 1,517	\$ 6,867
Cost-reimbursement	—	230	838	458	716	2,242
Time-and-materials	189	9	409	43	2	652
Total revenue	\$ 2,495	\$ 1,740	\$ 2,071	\$ 1,220	\$ 2,235	\$ 9,761
Nine Months Ended September 27, 2020						
Fixed-price	\$ 5,148	\$ 4,524	\$ 2,317	\$ 1,976	\$ 4,926	\$ 18,891
Cost-reimbursement	—	690	2,539	1,403	2,188	6,820
Time-and-materials	492	49	1,045	139	8	1,733
Total revenue	\$ 5,640	\$ 5,263	\$ 5,901	\$ 3,518	\$ 7,122	\$ 27,444
Nine Months Ended September 29, 2019						
Fixed-price	\$ 6,271	\$ 4,344	\$ 2,620	\$ 2,122	\$ 4,508	\$ 19,865
Cost-reimbursement	—	662	2,537	1,405	2,101	6,705
Time-and-materials	600	29	1,241	128	9	2,007
Total revenue	\$ 6,871	\$ 5,035	\$ 6,398	\$ 3,655	\$ 6,618	\$ 28,577

Our segments operate under fixed-price, cost-reimbursement and time-and-materials contracts. Our production contracts are primarily fixed-price. Under these contracts, we agree to perform a specific scope of work for a fixed amount. Contracts for research, engineering, repair and maintenance, and other services are typically cost-reimbursement or time-and-materials. Under cost-reimbursement contracts, the customer reimburses contract costs incurred and pays a fixed, incentive or award-based fee. These fees are determined by our ability to achieve targets set in the contract, such as cost, quality, schedule and performance. Under time-and-materials contracts, the customer pays a fixed hourly rate for direct labor and generally reimburses us for the cost of materials.

Each of these contract types presents advantages and disadvantages. Typically, we assume more risk with fixed-price contracts. However, these types of contracts offer additional profits when we complete the work for less than originally estimated. Cost-reimbursement contracts generally subject us to lower risk. Accordingly, the associated base fees are usually lower than fees earned on fixed-price contracts. Under time-and-materials contracts, our profit may vary if actual labor-hour rates vary significantly from the negotiated rates. Also, because these contracts can provide little or no fee for managing material costs, the content mix can impact profitability.

Revenue by customer was as follows:

Three Months Ended September 27, 2020	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Revenue
U.S. government:						
DoD	\$ 41	\$ 942	\$ 882	\$ 941	\$ 2,333	\$ 5,139
Non-DoD	—	3	1,088	112	1	1,204
Foreign Military Sales (FMS)	23	87	3	5	51	169
Total U.S. government	64	1,032	1,973	1,058	2,385	6,512
U.S. commercial	1,123	76	51	13	17	1,280
Non-U.S. government	59	678	5	134	2	878
Non-U.S. commercial	729	15	—	16	1	761
Total revenue	\$ 1,975	\$ 1,801	\$ 2,029	\$ 1,221	\$ 2,405	\$ 9,431
Three Months Ended September 29, 2019						
U.S. government:						
DoD	\$ 87	\$ 931	\$ 875	\$ 861	\$ 2,157	\$ 4,911
Non-DoD	—	3	1,141	135	—	1,279
FMS	18	58	3	12	43	134
Total U.S. government	105	992	2,019	1,008	2,200	6,324
U.S. commercial	1,365	62	52	33	31	1,543
Non-U.S. government	77	663	—	145	3	888
Non-U.S. commercial	948	23	—	34	1	1,006
Total revenue	\$ 2,495	\$ 1,740	\$ 2,071	\$ 1,220	\$ 2,235	\$ 9,761

Nine Months Ended September 27, 2020	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Revenue
U.S. government:						
DoD	\$ 254	\$ 2,760	\$ 2,556	\$ 2,599	\$ 6,882	\$ 15,051
Non-DoD	—	9	3,196	335	3	3,543
FMS	93	275	11	23	151	553
Total U.S. government	347	3,044	5,763	2,957	7,036	19,147
U.S. commercial	2,935	217	138	73	77	3,440
Non-U.S. government	133	1,959	—	403	7	2,502
Non-U.S. commercial	2,225	43	—	85	2	2,355
Total revenue	\$ 5,640	\$ 5,263	\$ 5,901	\$ 3,518	\$ 7,122	\$ 27,444
Nine Months Ended September 29, 2019						
U.S. government:						
DoD	\$ 262	\$ 2,634	\$ 2,725	\$ 2,529	\$ 6,375	\$ 14,525
Non-DoD	—	9	3,511	403	1	3,924
FMS	47	227	12	33	134	453
Total U.S. government	309	2,870	6,248	2,965	6,510	18,902
U.S. commercial	3,820	171	137	107	97	4,332
Non-U.S. government	284	1,951	13	492	7	2,747
Non-U.S. commercial	2,458	43	—	91	4	2,596
Total revenue	\$ 6,871	\$ 5,035	\$ 6,398	\$ 3,655	\$ 6,618	\$ 28,577

**Contract Balances.** The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheet. In our defense segments, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., biweekly or monthly) or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or deposits from our customers, particularly on our international contracts, before revenue is recognized, resulting in contract liabilities. These assets and liabilities are reported on the Consolidated Balance Sheet on a contract-by-contract basis at the end of each reporting period. In our Aerospace segment, we generally receive deposits from customers upon contract execution and upon achievement of contractual milestones. These deposits are liquidated when revenue is recognized. Changes in the contract asset and liability balances during the nine-month period ended September 27, 2020, were not materially impacted by any other factors.

Revenue recognized for the three- and nine-month periods ended September 27, 2020, and September 29, 2019, that was included in the contract liability balance at the beginning of each year was \$767 and \$3.2 billion, and \$1.1 billion and \$4 billion, respectively. This revenue represented primarily the sale of business-jet aircraft.

#### D. EARNINGS PER SHARE

We compute basic earnings per share (EPS) using net earnings for the period and the weighted average number of common shares outstanding during the period. Diluted EPS incorporates the additional shares issuable upon the assumed exercise of stock options and the release of restricted stock and restricted stock units (RSUs).



Basic and diluted weighted average shares outstanding were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Basic weighted average shares outstanding	286,452	288,374	287,136	288,130
Dilutive effect of stock options and restricted stock/RSUs*	775	2,518	927	2,704
Diluted weighted average shares outstanding	287,227	290,892	288,063	290,834

\* Excludes outstanding options to purchase shares of common stock that had exercise prices in excess of the average market price of our common stock during the period and, therefore, the effect of including these options would be antidilutive. These options totaled 7,551 and 7,034 for the three- and nine-month periods ended September 27, 2020, and 5,270 and 4,899 for the three- and nine-month periods ended September 29, 2019, respectively.

## E. FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between marketplace participants. Various valuation approaches can be used to determine fair value, each requiring different valuation inputs. The following hierarchy classifies the inputs used to determine fair value into three levels:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs, other than quoted prices, observable by a marketplace participant either directly or indirectly; and
- Level 3 - unobservable inputs significant to the fair value measurement.

We did not have any significant non-financial assets or liabilities measured at fair value on September 27, 2020, or December 31, 2019.

Our financial instruments include cash and equivalents, accounts receivable and payable, marketable securities held in trust and other investments, short- and long-term debt, and derivative financial instruments. The carrying values of cash and equivalents and accounts receivable and payable on the unaudited Consolidated Balance Sheet approximate their fair value. The following tables present the fair values of our other financial assets and liabilities on September 27, 2020, and December 31, 2019, and the basis for determining their fair values:



	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 27, 2020					
Financial Assets (Liabilities)					
Measured at fair value:					
Marketable securities held in trust:					
Cash and equivalents	\$ 6	\$ 6	\$ —	\$ 6	\$ —
Available-for-sale debt securities	138	138	—	138	—
Equity securities	55	55	55	—	—
Other investments	9	9	—	—	9
Cash flow hedges	207	207	—	207	—
Measured at amortized cost:					
Short- and long-term debt principal	(13,498)	(14,928)	—	(14,928)	—

December 31, 2019

Measured at fair value:					
Marketable securities held in trust:					
Cash and equivalents	\$ 24	\$ 24	\$ 11	\$ 13	\$ —
Available-for-sale debt securities	129	129	—	129	—
Equity securities	54	54	54	—	—
Other investments	4	4	—	—	4
Cash flow hedges	26	26	—	26	—
Measured at amortized cost:					
Short- and long-term debt principal	(12,005)	(12,339)	—	(12,339)	—

Our Level 1 assets include investments in publicly traded equity securities valued using quoted prices from the market exchanges. The fair value of our Level 2 assets and liabilities, which consist primarily of fixed-income securities, cash flow hedge assets and our fixed-rate notes, is determined under a market approach using valuation models that incorporate observable inputs such as interest rates, bond yields and quoted prices for similar assets. Our Level 3 assets include direct private equity investments that are measured using inputs unobservable to a marketplace participant.

## F. INCOME TAXES

**Net Deferred Tax Liability.** Our deferred tax assets and liabilities are included in other noncurrent assets and liabilities on the Consolidated Balance Sheet. Our net deferred tax liability consisted of the following:

	September 27, 2020	December 31, 2019
Deferred tax asset	\$ 34	\$ 33
Deferred tax liability	(462)	(481)
Net deferred tax liability	\$ (428)	\$ (448)

**Tax Uncertainties.** We participate in the Internal Revenue Service (IRS) Compliance Assurance Process (CAP), a real-time audit of our consolidated federal corporate income tax return. The IRS has examined our consolidated federal income tax returns through 2018 and is currently reviewing our 2019 tax year.

For all periods open to examination by tax authorities, we periodically assess our liabilities and contingencies based on the latest available information. Where we believe there is more than a 50% chance that our tax position will not be sustained, we record our best estimate of the resulting tax liability, including interest, in the Consolidated Financial Statements. We include any interest or penalties incurred in connection with income taxes as part of income tax expense.

Based on all known facts and circumstances and current tax law, we believe the total amount of any unrecognized tax benefits on September 27, 2020, was not material to our results of operations, financial condition or cash flows. In addition, there are no tax positions for which it is reasonably possible that the unrecognized tax benefits will vary significantly over the next 12 months, producing, individually or in the aggregate, a material effect on our results of operations, financial condition or cash flows.

## G. UNBILLED RECEIVABLES

Unbilled receivables represent revenue recognized on long-term contracts (contract costs and estimated profits) less associated advances and progress billings. These amounts will be billed in accordance with the agreed-upon contractual terms. Unbilled receivables consisted of the following:

	September 27, 2020	December 31, 2019
Unbilled revenue	\$ 33,244	\$ 33,481
Advances and progress billings	(25,101)	(25,624)
Net unbilled receivables	\$ 8,143	\$ 7,857

On September 27, 2020, and December 31, 2019, net unbilled receivables included \$2.5 billion and \$2.9 billion, respectively, associated with a large international wheeled armored vehicle contract in our Combat Systems segment. We had experienced delays in payment under the contract in 2018 and 2019, which resulted in the large unbilled receivables balance. In March 2020, we finalized a new agreement with the customer that included a revised payment schedule. Under the new agreement, we received two \$500 progress payments, one in each of the first and second quarters of 2020. Further progress payments will be due annually that will liquidate the net unbilled receivables balance over the next few years.

## H. INVENTORIES

The majority of our inventories are for business-jet aircraft. Our inventories are stated at the lower of cost or net realizable value. Work in process represents largely labor, material and overhead costs associated with aircraft in the manufacturing process and is based primarily on the estimated average unit cost in a production lot. Raw materials are valued primarily on the first-in, first-out method. We record pre-owned aircraft acquired in connection with the sale of new aircraft at the lower of the trade-in value or the estimated net realizable value.

Inventories consisted of the following:

	September 27, 2020	December 31, 2019
Work in process	\$ 4,550	\$ 4,419
Raw materials	1,769	1,733
Finished goods	24	30
Pre-owned aircraft	59	124
Total inventories	\$ 6,402	\$ 6,306

## I. DEBT

Debt consisted of the following:

		September 27, 2020	December 31, 2019
Fixed-rate notes due:	Interest rate:		
May 2020	2.875%	\$ —	\$ 2,000
May 2021	3.000%	2,000	2,000
July 2021	3.875%	500	500
November 2022	2.250%	1,000	1,000
May 2023	3.375%	750	750
August 2023	1.875%	500	500
November 2024	2.375%	500	500
April 2025	3.250%	750	—
May 2025	3.500%	750	750
August 2026	2.125%	500	500
April 2027	3.500%	750	—
November 2027	2.625%	500	500
May 2028	3.750%	1,000	1,000
April 2030	3.625%	1,000	—
April 2040	4.250%	750	—
November 2042	3.600%	500	500
April 2050	4.250%	750	—
Floating-rate notes due:			
May 2020	3-month LIBOR + 0.29%	—	500
May 2021	3-month LIBOR + 0.38%	500	500
Other	Various	498	505
Total debt principal		13,498	12,005
Less unamortized debt issuance costs and discounts		126	75
Total debt		13,372	11,930
Less current portion		3,394	2,920
Long-term debt		\$ 9,978	\$ 9,010

In March 2020, we issued \$4 billion of fixed-rate notes. The proceeds were used to repay \$2.5 billion of fixed- and floating-rate notes that matured in May 2020 and for general corporate purposes, including

the repayment of a portion of our borrowings under our commercial paper program. We also amended two of our credit facilities to, among other things, extend their expiration dates.

On September 27, 2020, we had no commercial paper outstanding, but we maintain the ability to access the commercial paper market in the future. Separately, we have \$5 billion in committed bank credit facilities for general corporate purposes and working capital needs and to support our commercial paper issuances. These credit facilities include a \$2 billion 364-day facility expiring in March 2021, a \$2 billion multi-year facility expiring in March 2023 and a \$1 billion multi-year facility expiring in March 2025. We may renew or replace these credit facilities in whole or in part at or prior to their expiration dates. We also have an effective shelf registration on file with the Securities and Exchange Commission that allows us to access the debt markets.

Our financing arrangements contain a number of customary covenants and restrictions. We were in compliance with all covenants and restrictions on September 27, 2020.

## J. OTHER LIABILITIES

A summary of significant other liabilities by balance sheet caption follows:

	September 27, 2020	December 31, 2019
Salaries and wages	\$ 1,064	\$ 941
Workers' compensation	316	306
Retirement benefits	292	296
Operating lease liabilities	268	252
Fair value of cash flow hedges	100	32
Other (a)	1,987	1,744
<b>Total other current liabilities</b>	<b>\$ 4,027</b>	<b>\$ 3,571</b>
Retirement benefits	\$ 4,868	\$ 5,172
Operating lease liabilities	1,151	1,251
Customer deposits on commercial contracts	865	709
Deferred income taxes	462	481
Other (b)	2,098	1,840
<b>Total other liabilities</b>	<b>\$ 9,444</b>	<b>\$ 9,453</b>

(a) Consists primarily of dividends payable, taxes payable, environmental remediation reserves, warranty reserves, deferred revenue and supplier contributions in the Aerospace segment, liabilities of discontinued operations, finance lease liabilities and insurance-related costs.

(b) Consists primarily of warranty reserves, workers' compensation liabilities, finance lease liabilities and liabilities of discontinued operations.

## K. SHAREHOLDERS' EQUITY

**Share Repurchases.** Our board of directors from time to time authorizes management's repurchase of outstanding shares of our common stock on the open market. On March 4, 2020, the board of directors authorized management to repurchase up to 10 million additional shares of the company's outstanding stock. In the nine-month period ended September 27, 2020, we repurchased 3.4 million of our outstanding shares for \$501. We did not repurchase any shares in the second and third quarters of 2020. On September 27, 2020, 13 million shares remained authorized by our board of directors for repurchase, representing 4.5% of our total shares outstanding. We repurchased 1.1 million shares for \$184 in the nine-month period ended September 29, 2019.



**Dividends per Share.** Our board of directors declared dividends of \$1.10 and \$3.30 per share for the three- and nine-month periods ended September 27, 2020, and \$1.02 and \$3.06 per share for the three- and nine-month periods ended September 29, 2019, respectively. We paid cash dividends of \$315 and \$925 for the three- and nine-month periods ended September 27, 2020, and \$295 and \$858 for the three- and nine-month periods ended September 29, 2019, respectively.

**Accumulated Other Comprehensive Loss.** The changes, pretax and net of tax, in each component of accumulated other comprehensive loss (AOCL) consisted of the following:

	Gains /(Losses) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Changes in Retirement Plans' Funded Status	AOCL
<b>December 31, 2019</b>	\$ 2	\$ 288	\$ (4,509)	\$ (4,219)
Other comprehensive income, pretax	181	60	218	459
Provision for income tax, net	(49)	—	(46)	(95)
Other comprehensive income, net of tax	132	60	172	364
<b>September 27, 2020</b>	\$ 134	\$ 348	\$ (4,337)	\$ (3,855)

  

<b>December 31, 2018</b>	\$ (71)	\$ 102	\$ (3,809)	\$ (3,778)
Other comprehensive income, pretax	70	48	188	306
Provision for income tax, net	(17)	—	(42)	(59)
Other comprehensive income, net of tax	53	48	146	247
<b>September 29, 2019</b>	\$ (18)	\$ 150	\$ (3,663)	\$ (3,531)

Amounts reclassified out of AOCL related primarily to changes in our retirement plans' funded status and included pretax recognized net actuarial losses and amortization of prior service credit. See Note N for these amounts, which are included in our net periodic pension and other post-retirement benefit cost.

## L. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to market risk, primarily from foreign currency exchange rates, interest rates, commodity prices and investments. We may use derivative financial instruments to hedge some of these risks as described below. We do not use derivative financial instruments for trading or speculative purposes.

**Foreign Currency Risk.** Our foreign currency exchange rate risk relates to receipts from customers, payments to suppliers and inter-company transactions denominated in foreign currencies. To the extent possible, we include terms in our contracts that are designed to protect us from this risk. Otherwise, we enter into derivative financial instruments, principally foreign currency forward purchase and sale contracts, designed to offset and minimize our risk. The dollar-weighted two-year average maturity of these instruments generally matches the duration of the activities that are at risk.

**Interest Rate Risk.** Our financial instruments subject to interest rate risk include fixed- and floating-rate long-term debt obligations. We entered into derivative financial instruments, specifically interest rate swap contracts, to eliminate our floating-rate interest risk. The interest rate risk associated with our financial instruments is not material.



**Commodity Price Risk.** We are subject to rising labor and commodity price risk, primarily on long-term, fixed-price contracts. To the extent possible, we include terms in our contracts that are designed to

protect us from these risks. Some of the protective terms included in our contracts are considered derivative financial instruments but are not accounted for separately, because they are clearly and closely related to the host contract. We have not entered into any material commodity hedging contracts but may do so as circumstances warrant. We do not believe that changes in labor or commodity prices will have a material impact on our results of operations or cash flows.

**Investment Risk.** Our investment policy allows for purchases of fixed-income securities with an investment-grade rating and a maximum maturity of up to five years. On September 27, 2020, and December 31, 2019, we held \$1.5 billion and \$902 in cash and equivalents, respectively, but held no marketable securities other than those held in trust to meet some of our obligations under workers' compensation and non-qualified supplemental executive retirement plans. On September 27, 2020, and December 31, 2019, we held marketable securities in trust of \$199 and \$207, respectively. These marketable securities are reflected at fair value on the Consolidated Balance Sheet in other current and noncurrent assets. See Note E for additional details.

**Hedging Activities.** We had notional forward exchange and interest rate swap contracts outstanding of \$10 billion and \$5 billion on September 27, 2020, and December 31, 2019, respectively. These derivative financial instruments are cash flow hedges, and are reflected at fair value on the Consolidated Balance Sheet in other current assets and liabilities. See Note E for additional details.

Changes in fair value (gains and losses) related to derivative financial instruments that qualify as cash flow hedges are deferred in AOCL until the underlying transaction is reflected in earnings. Alternatively, gains and losses on derivative financial instruments that do not qualify for hedge accounting are recorded each period in earnings. All gains and losses from derivative financial instruments recognized in the Consolidated Statement of Earnings are presented in the same line item as the underlying transaction, either operating costs and expenses or interest expense.

Net gains and losses recognized in earnings on derivative financial instruments that do not qualify for hedge accounting were not material to our results of operations for the three- and nine-month periods ended September 27, 2020, and September 29, 2019. Net gains and losses reclassified to earnings from AOCL related to qualified hedges were also not material to our results of operations for the three- and nine-month periods ended September 27, 2020, and September 29, 2019, and we do not expect the amount of these gains and losses that will be reclassified to earnings during the next 12 months to be material.

We had no material derivative financial instruments designated as fair value or net investment hedges on September 27, 2020, or December 31, 2019.

**Foreign Currency Financial Statement Translation.** We translate foreign currency balance sheets from our international businesses' functional currency (generally the respective local currency) to U.S. dollars at the end-of-period exchange rates, and statements of earnings at the average exchange rates for each period. The resulting foreign currency translation adjustments are a component of AOCL.

We do not hedge the fluctuation in reported revenue and earnings resulting from the translation of these international operations' results into U.S. dollars. The impact of translating our non-U.S. operations' revenue and earnings into U.S. dollars was not material to our results of operations for the three- and nine-month periods ended September 27, 2020, or September 29, 2019. In addition, the effect of changes in foreign exchange rates on non-U.S. cash balances was not material for the nine-month periods ended September 27, 2020, and September 29, 2019.

## M. COMMITMENTS AND CONTINGENCIES

### *Litigation*

In 2015, Electric Boat Corporation, a subsidiary of General Dynamics Corporation, received a Civil Investigative Demand from the U.S. Department of Justice regarding an investigation of potential False Claims Act violations relating to alleged failures of Electric Boat's quality system with respect to allegedly non-conforming parts purchased from a supplier. In 2016, Electric Boat was made aware that it is a defendant in a lawsuit related to this matter which had been filed under seal in U.S. district court. Also in 2016, the Suspending and Debarring Official for the U.S. Department of the Navy issued a Show Cause Letter to Electric Boat requesting that Electric Boat respond to the official's concerns regarding Electric Boat's oversight and management with respect to its quality assurance systems for subcontractors and suppliers. Electric Boat responded to the Show Cause Letter and engaged in discussions with the U.S. government.

In the third quarter of 2019, the Department of Justice declined to intervene in the qui tam action, noting that its investigation continues, and the court unsealed the relator's complaint. In the first quarter of 2020, the relator filed an amended complaint. Given the current status of these matters, we are unable to express a view regarding the ultimate outcome or, if the outcome is adverse, to estimate an amount or range of reasonably possible loss. Depending on the outcome of these matters, there could be a material impact on our results of operations, financial condition and cash flows.

Additionally, various other claims and legal proceedings incidental to the normal course of business are pending or threatened against us. These other matters relate to such issues as government investigations and claims, the protection of the environment, asbestos-related claims and employee-related matters. The nature of litigation is such that we cannot predict the outcome of these other matters. However, based on information currently available, we believe any potential liabilities in these other proceedings, individually or in the aggregate, will not have a material impact on our results of operations, financial condition or cash flows.

### *Environmental*

We are subject to and affected by a variety of federal, state, local and foreign environmental laws and regulations. We are directly or indirectly involved in environmental investigations or remediation at some of our current and former facilities and third-party sites that we do not own but where we have been designated a Potentially Responsible Party (PRP) by the U.S. Environmental Protection Agency or a state environmental agency. Based on historical experience, we expect that a significant percentage of the total remediation and compliance costs associated with these facilities will continue to be allowable contract costs and, therefore, recoverable under U.S. government contracts.

As required, we provide financial assurance for certain sites undergoing or subject to investigation or remediation. We accrue environmental costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. Where applicable, we seek insurance recovery for costs related to environmental liabilities. We do not record insurance recoveries before collection is considered probable. Based on all known facts and analyses, we do not believe that our liability at any individual site, or in the aggregate, arising from such environmental conditions will be material to our results of operations, financial condition or cash flows. We also do not believe that the range of reasonably possible additional loss beyond what has been recorded would be material to our results of operations, financial condition or cash flows.

### *Other*

**Government Contracts.** As a government contractor, we are subject to U.S. government audits and investigations relating to our operations, including claims for fines, penalties, and compensatory and treble damages. We believe the outcome of such ongoing government audits and investigations will not have a material impact on our results of operations, financial condition or cash flows.



In the performance of our contracts, we routinely request contract modifications that require additional funding from the customer. Most often, these requests are due to customer-directed changes in the scope of work. While we are entitled to recovery of these costs under our contracts, the administrative process with our customer may be protracted. Based on the circumstances, we periodically file requests for equitable adjustment (REAs) that are sometimes converted into claims. In some cases, these requests are disputed by our customer. We believe our outstanding modifications, REAs and other claims will be resolved without material impact to our results of operations, financial condition or cash flows.

**Letters of Credit and Guarantees.** In the ordinary course of business, we have entered into letters of credit, bank guarantees, surety bonds and other similar arrangements with financial institutions and insurance carriers totaling approximately \$1.2 billion on September 27, 2020. In addition, from time to time and in the ordinary course of business, we contractually guarantee the payment or performance of our subsidiaries arising under certain contracts.

**Aircraft Trade-ins.** In connection with orders for new aircraft in contract backlog, our Aerospace segment has outstanding options with some customers to trade in aircraft as partial consideration in their new-aircraft transaction. These trade-in commitments are generally structured to establish the fair market value of the trade-in aircraft at a date generally 45 or fewer days preceding delivery of the new aircraft to the customer. At that time, the customer is required to either exercise the option or allow its expiration. Other trade-in commitments are structured to guarantee a pre-determined trade-in value. These commitments present more risk in the event of an adverse change in market conditions. In either case, any excess of the pre-established trade-in price above the fair market value at the time the new aircraft is delivered is treated as a reduction of revenue in the new-aircraft sales transaction. As of September 27, 2020, the estimated change in fair market values from the date of the commitments was not material.

**Product Warranties.** We provide warranties to our customers associated with certain product sales. We record estimated warranty costs in the period in which the related products are delivered. The warranty liability recorded at each balance sheet date is based generally on the number of months of warranty coverage remaining for the products delivered and the average historical monthly warranty payments. Warranty obligations incurred in connection with long-term production contracts are accounted for within the contract estimates at completion. Our other warranty obligations, primarily for business-jet aircraft, are included in other current and noncurrent liabilities on the Consolidated Balance Sheet.

The changes in the carrying amount of warranty liabilities for the nine-month periods ended September 27, 2020, and September 29, 2019, were as follows:

Nine Months Ended	September 27, 2020		September 29, 2019	
Beginning balance	\$	619	\$	480
Warranty expense		72		84
Payments		(72)		(62)
Adjustments		39		(14)
Ending balance	\$	658	\$	488

## N. RETIREMENT PLANS

We provide defined-contribution benefits to eligible employees, as well as some remaining defined-benefit pension and other post-retirement benefits.



Net periodic defined-benefit pension and other post-retirement benefit (credit) cost for the three- and nine-month periods ended September 27, 2020, and September 29, 2019, consisted of the following:

Three Months Ended	Pension Benefits		Other Post-retirement Benefits	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Service cost	\$ 29	\$ 28	\$ 2	\$ 2
Interest cost	123	150	7	9
Expected return on plan assets	(234)	(228)	(9)	(9)
Recognized net actuarial loss (gain)	87	98	—	(2)
Amortization of prior service credit	(4)	(4)	(1)	(1)
Net periodic benefit cost (credit)	\$ 1	\$ 44	\$ (1)	\$ (1)
Nine Months Ended				
Service cost	\$ 88	\$ 84	\$ 7	\$ 6
Interest cost	369	450	21	27
Expected return on plan assets	(703)	(684)	(27)	(27)
Recognized net actuarial loss (gain)	246	238	(2)	(6)
Amortization of prior service credit	(13)	(13)	(1)	(3)
Net periodic benefit (credit) cost	\$ (13)	\$ 75	\$ (2)	\$ (3)

Based on changes in market conditions, we adjusted our assumptions for our non-qualified supplemental retirement plans in the third quarter of 2020 and the third quarter of 2019. As a result, both quarters reflect cumulative adjustments to recognize the resulting increases in expense.

Our contractual arrangements with the U.S. government provide for the recovery of contributions to our pension and other post-retirement benefit plans covering employees working in our defense segments. For non-funded plans, our government contracts allow us to recover claims paid. Following payment, these recoverable amounts are allocated to contracts and billed to the customer in accordance with the Cost Accounting Standards (CAS) and specific contractual terms. For some of these plans, the cumulative pension and other post-retirement benefit cost exceeds the amount currently allocable to contracts. To the extent we consider recovery of the cost to be probable based on our backlog and probable follow-on contracts, we defer the excess in other contract costs in other current assets on the Consolidated Balance Sheet until the cost is allocable to contracts. For other plans, the amount allocated to contracts and included in revenue has exceeded the plans' cumulative benefit cost. We have similarly deferred recognition of these excess earnings on the Consolidated Balance Sheet.

## O. SEGMENT INFORMATION

We have five operating segments: Aerospace, Combat Systems, Information Technology, Mission Systems and Marine Systems. We organize our segments in accordance with the nature of products and services offered. We measure each segment's profitability based on operating earnings. As a result, we do not allocate net interest, other income and expense items, and income taxes to our segments.

## Summary financial information for each of our segments follows:

Three Months Ended	Revenue		Operating Earnings	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Aerospace	\$ 1,975	\$ 2,495	\$ 283	\$ 393
Combat Systems	1,801	1,740	270	264
Information Technology	2,029	2,071	146	146
Mission Systems	1,221	1,220	168	185
Marine Systems	2,405	2,235	223	209
Corporate	—	—	(6)	19
Total	\$ 9,431	\$ 9,761	\$ 1,084	\$ 1,216
Nine Months Ended				
Aerospace	\$ 5,640	\$ 6,871	\$ 682	\$ 1,052
Combat Systems	5,263	5,035	732	712
Information Technology	5,901	6,398	379	456
Mission Systems	3,518	3,655	480	495
Marine Systems	7,122	6,618	607	586
Corporate	—	—	(14)	19
Total	\$ 27,444	\$ 28,577	\$ 2,866	\$ 3,320

Corporate operating results have two primary components: pension and other post-retirement benefit income, and equity-based compensation expense. We are required to report the non-service cost components of pension and other post-retirement benefit cost (e.g., interest cost) in other income (expense) in the Consolidated Statement of Earnings. As described in Note N, in our defense segments, pension and other post-retirement benefit costs are recoverable contract costs. Therefore, the non-service cost components are included in the operating results of these segments, but an offset is reported in Corporate.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in millions, except per-share amounts or unless otherwise noted)

### 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 (IT) services; command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions; and shipbuilding and ship repair.

Our company is organized into five operating segments: Aerospace, Combat Systems, Information Technology, Mission Systems and Marine Systems. We refer to the latter four segments collectively as our defense segments. Our primary customer is the U.S. government, including the Department of Defense (DoD), the intelligence community and other U.S. government customers. We also have significant business with non-U.S. governments and a diverse base of corporate and individual buyers of business-jet aircraft and related services. The following discussion should be read in conjunction with our 2019 Annual Report on Form 10-K and with the unaudited Consolidated Financial Statements included in this Form 10-Q.

### BUSINESS ENVIRONMENT

The ongoing outbreak of Coronavirus (COVID-19) has caused significant disruptions to national and global economies and government activities. Our businesses have been designated as critical infrastructure by the U.S. government and many non-U.S. governments and, as such, are required to stay open. During this time, we have continued to conduct our operations to the fullest extent possible, while responding to the outbreak with actions that include:

- implementing measures to protect the health and safety of our employees;
- modifying employee work locations and schedules where possible and permitted under our contracts;
- coordinating closely with our suppliers and customers;
- instituting various aspects of our business continuity programs;
- planning for and working aggressively to mitigate disruptions that may occur; and
- supporting our communities and the U.S. government in addressing the challenges of the pandemic, such as the production of medical supplies and donation of personal protective equipment.

While we expect this situation to be temporary, any longer-term impact to our business is currently unknown due to the uncertainty around the outbreak's duration and its broader impact. See the Risk Factors in Part II, Item 1A, regarding the COVID-19 outbreak, as well as those set forth in our most recent Form 10-K filing addressing additional risks facing our business, which may be affected by the COVID-19 outbreak.

The United States and some other governments have taken steps to respond to the outbreak and to support economic activity and liquidity in the capital markets. In the United States, the adoption of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) provides various forms of relief. The CARES Act includes provisions that allow agencies to reimburse contractors for payments to covered workers who are prevented from working due to COVID-19 facility closures or other restrictions; however,

such reimbursement is subject to the availability of funds. These provisions of the CARES Act, which were scheduled to expire on September 30, 2020, have been extended through December 11, 2020. The CARES Act also allows for loans to companies. To date, we have not sought or accepted CARES Act loans. In late March 2020, the DoD increased progress payment rates and reduced retention rates on certain contracts to provide liquidity to federal contractors and their suppliers. We have in turn advanced payments across our supplier base to help maintain the health and liquidity of our supply chain. Outside of the United States, other governments have established various government workforce programs, which can support business continuity for our foreign operations. We continue to assess the benefits and limitations of the actions taken by the United States and other governments. See also Note A to the unaudited Consolidated Financial Statements in Part I, Item 1 for additional information about our use of estimates and other uncertainties.

Our U.S. government business has continued to experience some disruption from the COVID-19 pandemic, including reduced activities due to select customer site closures and limited access to sites, travel restrictions, slowdowns in the provision of materials from suppliers, and lower man-hours at manufacturing sites. Internationally, while government actions shut down some of our facilities in the second quarter, our defense business has largely returned to normal operations. Within our Aerospace segment, pandemic-related travel limitations resulted in lower demand for aircraft services due to reduced flight activity, and disrupted the aircraft sales process by limiting our ability to arrange demonstration flights and coordinate in-person access to customers. To de-risk elements of the supply chain and better align production with demand, we have reduced our aircraft production rate until such time that the marketplace supports future increases in production rates. Accordingly, we have adjusted staffing levels and taken other cost control measures. The Review of Operating Segments includes additional information on the third-quarter results for each of our segments.

We expect COVID-19 to continue to negatively impact our businesses, particularly Aerospace, until the large economies of the world recover from the effects of the pandemic. During this period, our priorities remain to provide a healthy and safe work environment for our employees; closely monitor, work with and support our supply chain; and continue to meet our customers' demands. We believe the support by the DoD, and the U.S. government generally, of the defense industrial base has helped and will continue to help mitigate the effects of disruptions on our U.S. defense business. Our non-U.S. defense business will be impacted to varying degrees based on the response of the countries in which they operate.

In our Aerospace segment, as air travel resumes, we expect aircraft services volume to increase, but we could see some future aircraft deliveries delayed to the extent customers have difficulty traveling to take possession of their aircraft. In addition, should the global economy experience a significant extended downturn from the pandemic, demand for our aerospace products and services would likely be impacted. We will continue to assess further potential consequences to our employees, business, supply chain and customers, and take actions to mitigate adverse outcomes.

We took actions in the first nine months of 2020 to strengthen our liquidity and financial condition. In March 2020, we issued \$4 billion of fixed-rate notes to repay \$2.5 billion of fixed- and floating-rate notes that matured in May 2020 and for general corporate purposes, including the repayment of a portion of our borrowings under our commercial paper program. In addition to this long-term borrowing, we renewed our access to \$5 billion of credit facilities. While part of our pre-COVID-19 planning, this liquidity preserves our financial flexibility during the pandemic. We believe that our cash flows from operations and borrowing capacity are sufficient to support our short- and long-term liquidity needs.

## U.S. GOVERNMENT BUDGET

With approximately 70% of our revenue from the U.S. government, government spending levels — particularly defense spending — influence our financial performance. As the start of the government's new fiscal year (FY) approached, which began on October 1, 2020, the Congress had not passed the FY 2021 defense appropriations bill. On September 30, 2020, a continuing resolution (CR) was signed into law, providing funding for federal agencies at FY 2020 spending levels through December 11, 2020. When the government operates under a CR, all programs of record are funded at the prior year's appropriated levels, and the DoD is proscribed from starting new programs. This could result in delayed revenue growth as programs that were expected to have increased funding levels continue to operate at the prior-year levels until the current year appropriations bill is passed. To prevent detrimental changes or delays to certain critical government programs, the CR included anomalies that provide funding flexibility and additional appropriations for these programs, including the Columbia-class submarine program. We do not anticipate that the current CR, or any subsequent extensions, will have a material impact on our results of operations, financial condition or cash flows.

## RESULTS OF OPERATIONS

### INTRODUCTION

An understanding of our accounting practices is necessary in the evaluation of our financial statements and operating results. The following paragraphs explain how we recognize revenue and operating costs in our operating segments and the terminology we use to describe our operating results.

In the Aerospace segment, we record revenue on contracts for new aircraft when the customer obtains control of the asset, which is generally upon delivery and acceptance by the customer of the fully outfitted aircraft. Revenue associated with the segment's custom completions of narrow-body and wide-body aircraft and the segment's services businesses is recognized as work progresses or upon delivery of services. Fluctuations in revenue from period to period result from the number and mix of new aircraft deliveries, progress on aircraft completions, and the level and type of aircraft services performed during the period.

The majority of the Aerospace segment's operating costs relates to new aircraft production on firm orders and consists of labor, material, subcontractor and overhead costs. The costs are accumulated in production lots, recorded in inventory and recognized as operating costs at aircraft delivery based on the estimated average unit cost in a production lot. While changes in the estimated average unit cost for a production lot impact the level of operating costs, the amount of operating costs reported in a given period is based largely on the number and type of aircraft delivered. Operating costs in the Aerospace segment's completions and services businesses are recognized generally as incurred.

For new aircraft, operating earnings and margin are a function of the prices of our aircraft, our operational efficiency in manufacturing and outfitting the aircraft, and the mix of ultra-large-cabin, large-cabin and mid-cabin aircraft deliveries. Aircraft mix can also refer to the stage of program maturity for our aircraft models. A new aircraft model typically has lower margins in its initial production lots, and then margins generally increase as we realize efficiencies in the production process. Additional factors affecting the segment's earnings and margin include the volume, mix and profitability of completions and services work performed, the market for pre-owned aircraft, and the level of general and administrative (G&A) and net research and development (R&D) costs incurred by the segment.

In the defense segments, revenue on long-term government contracts is recognized generally over time as the work progresses, either as products are produced or as services are rendered. Typically, revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Contract costs include labor, material, overhead and, when appropriate, G&A expenses. Variances in costs recognized from period to period reflect primarily increases and decreases in production or activity levels on individual contracts. Because costs are used as a measure of progress, year-over-year variances in cost result in corresponding variances in revenue, which we generally refer to as volume.

Operating earnings and margin in the defense segments are driven by changes in volume, performance or contract mix. Performance refers to changes in profitability based on adjustments to estimates at completion on individual contracts. These adjustments result from increases or decreases to the estimated value of the contract, the estimated costs to complete the contract or both. Therefore, changes in costs incurred in the period compared with prior periods do not necessarily impact profitability. It is only when total estimated costs at completion on a given contract change without a corresponding change in the contract value (or vice versa) that the profitability of that contract may be impacted. Contract mix refers to changes in the volume of higher- versus lower-margin work. Higher or lower margins can result from a number of factors, including contract type (e.g., fixed-price/cost-reimbursable) and type of work (e.g., development/production). Contract mix can also refer to the stage of program maturity for our long-term production contracts. New long-term production contracts typically have lower margins initially, and then margins generally increase as we achieve learning curve improvements or realize other cost reductions.

## CONSOLIDATED OVERVIEW

Three Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 9,431	\$ 9,761	\$ (330)	(3.4)%
Operating costs and expenses	(8,347)	(8,545)	198	(2.3)%
Operating earnings	1,084	1,216	(132)	(10.9)%
Operating margin	11.5%	12.5%		
Nine Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 27,444	\$ 28,577	\$ (1,133)	(4.0)%
Operating costs and expenses	(24,578)	(25,257)	679	(2.7)%
Operating earnings	2,866	3,320	(454)	(13.7)%
Operating margin	10.4%	11.6%		

Our consolidated revenue decreased in the third quarter and first nine months of 2020 due to fewer aircraft deliveries and lower aircraft service activity in our Aerospace segment. The first nine months of 2020 also reflected lower IT services volume in our Information Technology segment. These decreases were driven by the impact of the COVID-19 outbreak. Higher volume on the Virginia-class and Columbia-class submarine programs in our Marine Systems segment helped offset some of these decreases. The combined revenue of our defense businesses for the first nine months of 2020 was up approximately \$100 compared with 2019.

Operating margin decreased in the third quarter and first nine months of 2020 due primarily to reduced aircraft deliveries and related severance charges in our Aerospace segment. Operating margin was also negatively impacted by COVID-related disruptions in our Information Technology segment, including a



loss on a contract with a non-U.S. customer in the second quarter and non-fee-bearing cost reimbursements by the U.S. government authorized under Section 3610 of the CARES Act.

Consolidated revenue was up approximately 2% sequentially while operating earnings improved almost 30% over the second quarter on a 240 basis-point improvement in operating margin.

## REVIEW OF OPERATING SEGMENTS

Following is a discussion of operating results for each of our operating segments. For the Aerospace segment, results are analyzed by specific types of products and services, consistent with how the segment is managed. For the defense segments, the discussion is based on markets and the lines of products and services offered with a supplemental discussion of specific contracts and programs when significant to the results. Additional information regarding our segments can be found in Note O to the unaudited Consolidated Financial Statements in Part I, Item 1.

### AEROSPACE

Three Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 1,975	\$ 2,495	\$ (520)	(20.8)%
Operating earnings	283	393	(110)	(28.0)%
Operating margin	14.3%	15.8%		
Gulfstream aircraft deliveries (in units)	32	38	(6)	(15.8)%
Nine Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 5,640	\$ 6,871	\$ (1,231)	(17.9)%
Operating earnings	682	1,052	(370)	(35.2)%
Operating margin	12.1%	15.3%		
Gulfstream aircraft deliveries (in units)	87	103	(16)	(15.5)%

### Operating Results

The change in the Aerospace segment's revenue in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter	Nine Months
Aircraft manufacturing	\$ (444)	\$ (1,032)
Aircraft services and completions	(76)	(199)
Total decrease	\$ (520)	\$ (1,231)

In the first nine months of 2020, quarantine and travel restrictions resulting from the COVID-19 outbreak had a significant impact on the segment's results. In an effort to de-risk elements of the supply chain and better align production with demand, in April we reduced our aircraft production and delivery rates for the year. As a result, aircraft manufacturing revenue decreased in the third quarter and first nine months of 2020 due primarily to fewer deliveries of the ultra-large-cabin G650 aircraft. In addition, decreased flight activity due to the pandemic resulted in lower demand for maintenance work and reduced volume at our fixed-base operator (FBO) facilities in the third quarter and first nine months of 2020.



The change in the segment's operating earnings in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter	Nine Months
Aircraft manufacturing	\$ (157)	\$ (438)
Aircraft services and completions	—	(30)
Restructuring charge	—	(42)
G&A/other expenses	47	140
Total decrease	\$ (110)	\$ (370)

Aircraft manufacturing operating earnings were down in the third quarter and first nine months of 2020 due to reduced aircraft production and delivery rates and a somewhat less favorable mix in aircraft deliveries. In the first nine months of 2020, operating earnings were also down in aircraft services and completions due to lower volume. Results during the first nine months were negatively impacted by restructuring actions taken to adjust the workforce size to the revised 2020 production levels. These decreases were offset partially by lower net G&A/other expenses, including reduced R&D expenses. Overall, R&D expenses have been trending downward with the completion of the G500 and G600 test programs. In total, the Aerospace segment's operating margin decreased 150 basis points in the third quarter and 320 basis points in the first nine months of 2020 compared with prior-year periods.

The Aerospace segment's operating earnings improved 78% in the third quarter compared with the second quarter of 2020 on stable revenue. As a result, the segment's operating margin increased 620 basis points in the third quarter compared with the second quarter of 2020, reflecting a favorable aircraft delivery mix, increased aircraft services activity and lower operating costs following the restructuring actions and related charge taken in the second quarter.

## COMBAT SYSTEMS

Three Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 1,801	\$ 1,740	\$ 61	3.5%
Operating earnings	270	264	6	2.3%
Operating margin	15.0%	15.2%		
Nine Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 5,263	\$ 5,035	\$ 228	4.5%
Operating earnings	732	712	20	2.8%
Operating margin	13.9%	14.1%		

## Operating Results

The increase in the Combat Systems segment's revenue in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter	Nine Months
Weapons systems and munitions	\$ 31	\$ 142
U.S. military vehicles	11	70
International military vehicles	19	16
Total increase	\$ 61	\$ 228





Revenue was up in our weapons systems and munitions business in the third quarter and first nine months of 2020 driven by increased production of artillery and missile subcomponents. Also in the first nine months of 2020, revenue from U.S. military vehicles increased due primarily to higher volume on the U.S. Army's Abrams tank program. Revenue from international military vehicles increased in the third quarter and first nine months of 2020 due to higher volume on a contract to produce armored combat support vehicles (ACSVs) for the Canadian government and the British Army's AJAX armored fighting vehicle program, offset partially by lower volume on Piranha wheeled armored vehicle programs.

The Combat Systems segment's operating margin decreased 20 basis points in the third quarter and first nine months of 2020 driven largely by contract mix. The segment's operating margin in 2020 was also impacted by the government-mandated closure during the second quarter of our Spanish manufacturing facilities.

## INFORMATION TECHNOLOGY

Three Months Ended	September 27, 2020	September 29, 2019	Variance
Revenue	\$ 2,029	\$ 2,071	\$ (42) (2.0)%
Operating earnings	146	146	— — %
Operating margin	7.2%	7.0%	
Nine Months Ended	September 27, 2020	September 29, 2019	Variance
Revenue	\$ 5,901	\$ 6,398	\$ (497) (7.8)%
Operating earnings	379	456	(77) (16.9)%
Operating margin	6.4%	7.1%	

## Operating Results

The change in the Information Technology segment's revenue in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter	Nine Months
Intelligence and homeland security	\$ (2)	\$ (234)
Defense	6	(134)
Federal civilian	(46)	(129)
Total decrease	\$ (42)	\$ (497)

In the first nine months of 2020, revenue was down across the Information Technology segment due to the partial closure of some customer sites to all but mission critical personnel and a lower level of customer and program activity as a result of the COVID-19 outbreak. Revenue was also lower due to the exit of non-core lines of business in 2019.

The Information Technology segment's operating margin increased 20 basis points in the third quarter of 2020 due to a charge recorded in the third quarter of 2019 as we exited a non-core line of business. Operating margin decreased 70 basis points in the first nine months of 2020 due to COVID-related impacts, including customer reimbursement of idle workforce cost at zero fee and an approximate \$40 loss recognized in the second quarter on a contract with a non-U.S. customer from schedule delays caused by COVID travel restrictions.

Revenue in the Information Technology segment grew 7.7% from the second quarter to the third quarter of 2020, and margins increased 280 basis points, reflecting the ramp up of new programs, higher volume on several existing programs, the international contract loss in the second quarter and a reduced pandemic impact as our customers begin to reopen and continue to reconstitute their workforces.

## MISSION SYSTEMS

Three Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 1,221	\$ 1,220	\$ 1	0.1 %
Operating earnings	168	185	(17)	(9.2)%
Operating margin	13.8%	15.2%		
Nine Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 3,518	\$ 3,655	\$ (137)	(3.7)%
Operating earnings	480	495	(15)	(3.0)%
Operating margin	13.6%	13.5%		

## Operating Results

The change in the Mission Systems segment's revenue in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter	Nine Months
Ground systems and products	\$ (52)	\$ (159)
Space, intelligence and cyber systems	7	(18)
Naval, air and electronic systems	46	40
Total increase (decrease)	\$ 1	\$ (137)

Revenue in our ground systems and products business was down in the third quarter and first nine months of 2020 due to the sale of a satellite communications business in the second quarter and volume timing, particularly on a mobile communications network program. These decreases were offset partially by increased volume on programs supporting the U.S. Navy's submarine platforms in our naval, air and electronic systems business.

The Mission Systems segment's operating margin decreased 140 basis points in the third quarter of 2020 and increased 10 basis points in the first nine months of 2020 due to program mix.

## MARINE SYSTEMS

Three Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 2,405	\$ 2,235	\$ 170	7.6%
Operating earnings	223	209	14	6.7%
Operating margin	9.3%	9.4%		
Nine Months Ended	September 27, 2020	September 29, 2019	Variance	
Revenue	\$ 7,122	\$ 6,618	\$ 504	7.6%
Operating earnings	607	586	21	3.6%
Operating margin	8.5%	8.9%		



## Operating Results

The increase in the Marine Systems segment's revenue in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter		Nine Months	
U.S. Navy ship construction	\$	195	\$	478
U.S. Navy ship engineering, repair and other services		(12)		50
Commercial ship construction		(13)		(24)
Total increase	\$	170	\$	504

Revenue from U.S. Navy ship construction was up in the third quarter and first nine months of 2020 due to increased volume on the Virginia-class and Columbia-class submarine programs. The Marine Systems segment's operating margin decreased 10 basis points in the third quarter of 2020 and 40 basis points in the first nine months of 2020 due to a shift in mix.

## CORPORATE

Corporate operating results consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Operating (expense) income	\$ (6)	\$ 19	\$ (14)	\$ 19

Corporate operating results have two primary components: pension and other post-retirement benefit income, and equity-based compensation expense. We are required to report the non-service cost components of pension and other post-retirement benefit cost (e.g., interest cost) in other income (expense) in the Consolidated Statement of Earnings. In our defense segments, pension and other post-retirement benefit costs are recoverable contract costs. Therefore, the non-service cost components are included in the operating results of these segments, but an offset is reported in Corporate. This amount decreased in the first nine months of 2020 compared with the first nine months of 2019, resulting in a lower offset to Corporate costs.

## OTHER INFORMATION

### PRODUCT REVENUE AND OPERATING COSTS

Three Months Ended		September 27, 2020		September 29, 2019		Variance	
Revenue	\$	5,454	\$	5,789	\$	(335)	(5.8)%
Operating costs		(4,452)		(4,640)		188	(4.1)%
Nine Months Ended		September 27, 2020		September 29, 2019		Variance	
Revenue	\$	15,849	\$	16,441	\$	(592)	(3.6)%
Operating costs		(13,038)		(13,217)		179	(1.4)%

The change in product revenue in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter	Nine Months
Aircraft manufacturing	\$ (444)	\$ (1,032)
Ship construction	182	454
Other, net	(73)	(14)
Total decrease	\$ (335)	\$ (592)

In the third quarter and first nine months of 2020, aircraft manufacturing revenue decreased due to the reduced production and delivery rates caused by the COVID-19 outbreak. These decreases were offset partially by increased volume on the Virginia-class and Columbia-class submarine programs. In the third quarter and first nine months of 2020, product operating costs decreased at a lower rate than revenue due primarily to the shift in mix of Gulfstream aircraft deliveries.

## SERVICE REVENUE AND OPERATING COSTS

Three Months Ended	September 27, 2020	September 29, 2019	Variance
Revenue	\$ 3,977	\$ 3,972	\$ 5 0.1 %
Operating costs	(3,384)	(3,333)	(51) 1.5 %
Nine Months Ended	September 27, 2020	September 29, 2019	Variance
Revenue	\$ 11,595	\$ 12,136	\$ (541) (4.5)%
Operating costs	(9,931)	(10,258)	327 (3.2)%

The change in service revenue in the third quarter and first nine months of 2020 consisted of the following:

	Third Quarter	Nine Months
IT services	\$ (42)	\$ (497)
Other, net	47	(44)
Total increase (decrease)	\$ 5	\$ (541)

In the third quarter and first nine months of 2020, IT services revenue decreased due to the partial closure of some customer sites to all but mission critical personnel and a lower level of customer and program activity as a result of the COVID-19 outbreak. In the first nine months of 2020, the primary driver of the decrease in service operating costs was the change in volume of IT services described above.

## G&A EXPENSES

As a percentage of revenue, G&A expenses were 5.9% in the first nine months of 2020 compared with 6.2% in the first nine months of 2019.

## INTEREST, NET

Net interest expense was \$357 in the first nine months of 2020 compared with \$350 in the prior-year period. See Note I to the unaudited Consolidated Financial Statements in Part I, Item 1, for additional information regarding our debt obligations, including interest rates.

## OTHER, NET

Net other income was \$44 in the first nine months of 2020 compared with \$18 in the first nine months of 2019. These amounts represent primarily the non-service cost components of pension and other post-retirement benefits, which were net income items in both periods.

## PROVISION FOR INCOME TAX, NET

Our effective tax rate was 15.2% in the first nine months of 2020 compared with 17.5% in the prior-year period. The decrease is due to a variety of factors, including lower taxes on international income and higher research tax credits.

## BACKLOG AND ESTIMATED POTENTIAL CONTRACT VALUE

Our total backlog, including funded and unfunded portions, was \$81.5 billion at the end of the third quarter of 2020 compared with \$82.7 billion on June 28, 2020. Our total backlog is equal to our remaining performance obligations under contracts with customers as discussed in Note C to the unaudited Consolidated Financial Statements in Part I, Item 1. Our total estimated contract value, which combines total backlog with estimated potential contract value, was \$131.9 billion on September 27, 2020.

The following table details the backlog and estimated potential contract value of each segment at the end of the third and second quarters of 2020:

	Funded	Unfunded	Total Backlog	Estimated Potential Contract Value	Total Estimated Contract Value
September 27, 2020					
Aerospace	\$ 11,640	\$ 324	\$ 11,964	\$ 2,888	\$ 14,852
Combat Systems	14,511	200	14,711	6,593	21,304
Information Technology	5,558	3,411	8,969	18,925	27,894
Mission Systems	4,554	240	4,794	7,317	12,111
Marine Systems	23,958	17,124	41,082	14,666	55,748
Total	\$ 60,221	\$ 21,299	\$ 81,520	\$ 50,389	\$ 131,909
June 28, 2020					
Aerospace	\$ 11,874	\$ 239	\$ 12,113	\$ 2,834	\$ 14,947
Combat Systems	13,863	242	14,105	6,399	20,504
Information Technology	5,464	3,463	8,927	18,392	27,319
Mission Systems	4,856	185	5,041	7,510	12,551
Marine Systems	25,118	17,365	42,483	14,441	56,924
Total	\$ 61,175	\$ 21,494	\$ 82,669	\$ 49,576	\$ 132,245

## AEROSPACE

Aerospace funded backlog represents new aircraft and custom completion orders for which we have definitive purchase contracts and deposits from customers. Unfunded backlog consists of agreements to provide future

aircraft maintenance and support services. The Aerospace segment ended the third quarter of 2020 with backlog of \$12 billion. Following reduced order activity in the first half of 2020 due to the



COVID-19 outbreak, the third quarter of 2020 reflected improving demand for Gulfstream aircraft. The segment's book-to-bill ratio (orders divided by revenue) was 0.9-to-1 in the third quarter of 2020 and 1.1-to-1 over the trailing 12 months.

Beyond total backlog, estimated potential contract value represents primarily options and other agreements with existing customers to purchase new aircraft and long-term aircraft services agreements. On September 27, 2020, estimated potential contract value in the Aerospace segment was \$2.9 billion.

## DEFENSE SEGMENTS

The total backlog in our defense segments represents the estimated remaining sales value of work to be performed under firm contracts. The funded portion of total backlog includes items that have been authorized and appropriated by the U.S. Congress and funded by customers, as well as commitments by international customers that are approved and funded similarly by their governments. The unfunded portion of total backlog includes the amounts that we believe are likely to be funded, but there is no guarantee that future budgets and appropriations will provide the same funding level currently anticipated for a given program.

Estimated potential contract value in our defense segments includes unexercised options associated with existing firm contracts and unfunded work on indefinite delivery, indefinite quantity (IDIQ) contracts. Contract options represent agreements to perform additional work under existing contracts at the election of the customer. We recognize options in backlog when the customer exercises the option and establishes a firm order. For IDIQ contracts, we evaluate the amount of funding we expect to receive and include this amount in our estimated potential contract value. This amount is often less than the total IDIQ contract value, particularly when the contract has multiple awardees. The actual amount of funding received in the future may be higher or lower than our estimate of potential contract value.

Total backlog in our defense segments was \$69.6 billion on September 27, 2020. The Information Technology and Marine Systems segments each achieved a book-to-bill ratio of 1-to-1 or greater over the trailing 12 months. Estimated potential contract value in our defense segments was \$47.5 billion on September 27, 2020. We received the following significant contract awards during the third quarter of 2020:

### Combat Systems:

- \$870 to deliver 8x8 wheeled combat vehicles, maintenance and life cycle support to the Spanish Ministry of Defense.
- An IDIQ contract to produce Small Multipurpose Equipment Transport (SMET) vehicles for the U.S. Army. The contract has a maximum potential value of \$250.
- \$125 from the Army for various munitions and ordnance.
- \$55 from the U.S. Navy to produce gun systems for the F-35 Joint Strike Fighter.
- \$35 from the Army for the production of Improved Fire Control Electronics Units (IFCEUs) and Improved Commanders Display Units (ICDUs) for the Abrams tank program.

### Information Technology:

- \$65 to provide enterprise information technology and cybersecurity services and solutions for the DoD. The contract has a maximum potential value of \$760.

- \$70 to provide command, control and communications capabilities for the DoD. The contract has a maximum potential value of \$365.
- \$50 from the U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services (CMS) to provide cloud services and software tools. The contract has a maximum potential value of \$240.
- \$145 for several key contracts to provide intelligence services to classified customers.
- \$110 to provide design, development, testing, installation, maintenance, logistics support and modernization services for Navy airborne and shipboard platforms.
- \$95 to provide logistics, sustainment and maintenance support services for the Army.
- \$50 from the U.S. Department of Veterans Affairs under the Veterans Intake, Conversion and Communications Services (VICCS) program to modernize benefits claims processing.

#### Mission Systems:

- \$140 for several key contracts for classified customers.
- \$95 from the Army for computing and communications equipment under the Common Hardware Systems-5 (CHS-5) program.
- \$35 from the Army to provide continued software support and engineering for the Warfighter Information Network-Tactical (WIN-T) Increment 2 program.

#### Marine Systems:

- \$240 from the Navy to provide maintenance and repair services for the Arleigh Burke-class guided-missile destroyer, Independence-class Littoral Combat Ship (LCS), Ticonderoga-class guided-missile cruiser and Wasp-class amphibious assault ship programs.
- \$155 from the Navy for Advanced Nuclear Plant Studies (ANPS) in support of various submarine programs.
- \$115 from the Navy for maintenance and modernization work on the USS Hartford, a Los Angeles-class attack submarine.
- \$35 from the Navy for the Expeditionary Sea Base (ESB) auxiliary support ship program.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We ended the third quarter of 2020 with a cash balance of \$1.5 billion compared with \$902 at the end of 2019. Our net debt position, defined as debt less cash and equivalents and marketable securities, was \$11.9 billion at the end of the third quarter of 2020.

We expect to continue to generate funds in excess of our short- and long-term liquidity needs. We believe we have adequate funds on hand and sufficient borrowing capacity to execute our financial and operating strategy. The following is a discussion of our major operating, investing and financing activities in the first nine months of 2020 and 2019, as classified on the unaudited Consolidated Statement of Cash Flows in Part I, Item 1.



## OPERATING ACTIVITIES

Cash provided by operating activities was \$1.3 billion in the first nine months of 2020 compared with \$587 in the same period in 2019. The primary driver of cash inflows in both periods was net earnings. However, cash flows in both periods were affected negatively by growth in operating working capital (OWC) in our Aerospace segment due to our position in the development and production cycles of our Gulfstream aircraft models. We had anticipated this OWC growth to begin reversing in 2020, but the impact of COVID-19 on our production and delivery rates has delayed this recovery. Cash flows in the first nine months of 2019 were also affected negatively by growth in OWC in our Combat Systems segment due to the timing of payments on a large international wheeled armored vehicle contract. For additional information about the unbilled receivables balance and activity associated with this contract, see Note G to the unaudited Consolidated Financial Statements in Part I, Item 1.

## INVESTING ACTIVITIES

Cash used for investing activities was \$589 in the first nine months of 2020 compared with \$604 in the same period in 2019. Our investing activities include cash paid for capital expenditures and business acquisitions; purchases, sales and maturities of marketable securities; and proceeds from asset sales. The primary use of cash for investing activities in both periods was capital expenditures. Capital expenditures were \$622 in the first nine months of 2020 compared with \$606 in the same period in 2019.

## FINANCING ACTIVITIES

Cash used by financing activities was \$100 in the first nine months of 2020 compared with cash provided of \$65 in the same period in 2019. Net cash from financing activities includes proceeds received from debt and commercial paper issuances and employee stock option exercises. Our financing activities also include repurchases of common stock, payment of dividends and debt repayments.

On March 4, 2020, our board of directors authorized management to repurchase up to 10 million additional shares of the company's outstanding stock. In the first nine months of 2020, we repurchased 3.4 million of our outstanding shares for \$501. We did not repurchase any shares in the second and third quarters of 2020. On September 27, 2020, 13 million shares remained authorized by our board of directors for repurchase, representing 4.5% of our total shares outstanding. We repurchased 1.1 million shares for \$184 in the first nine months of 2019.

On March 4, 2020, our board of directors declared an increased quarterly dividend of \$1.10 per share, the 23rd consecutive annual increase. Previously, the board had increased the quarterly dividend to \$1.02 per share in March 2019. Cash dividends paid were \$925 in the first nine months of 2020 compared with \$858 in the same period in 2019.

In March 2020, we issued \$4 billion of fixed-rate notes. The proceeds were used to repay \$2.5 billion of fixed- and floating-rate notes that matured in May 2020 and for general corporate purposes, including the repayment of a portion of our borrowings under our commercial paper program.

Fixed- and floating-rate notes totaling \$2.5 billion mature in May 2021, and an additional \$500 of fixed-rate notes mature in July 2021. As we approach the maturity dates of this debt, we plan to repay these notes using a combination of cash on hand and the issuance of commercial paper. For additional information regarding our debt obligations, including scheduled debt maturities and interest rates, and our credit facilities, see Note I to the unaudited Consolidated Financial Statements in Part 1, Item 1.

On September 27, 2020, we had no commercial paper outstanding, but we maintain the ability to access the commercial paper market in the future. Separately, we have \$5 billion in committed bank credit facilities for general corporate purposes and working capital needs and to support our commercial paper issuances. We also have an effective shelf registration on file with the Securities and Exchange Commission that allows us to access the debt markets.

## NON-GAAP FINANCIAL MEASURE – FREE CASH FLOW

We emphasize the efficient conversion of net earnings into cash and the deployment of that cash to maximize shareholder returns. As described below, we use free cash flow from operations to measure our performance in these areas. While we believe this metric provides useful information, it is not a defined operating measure under U.S. generally accepted accounting principles (GAAP), and there are limitations associated with its use. Our calculation of this metric may not be completely comparable to similarly titled measures of other companies due to potential differences in the method of calculation. As a result, the use of this metric should not be considered in isolation from, or as a substitute for, other GAAP measures.

We define free cash flow from operations as net cash provided by operating activities less capital expenditures. We believe free cash flow from operations is a useful measure for investors because it portrays our ability to generate cash from our businesses for purposes such as repaying maturing debt, funding business acquisitions, repurchasing our common stock and paying dividends. We use free cash flow from operations to assess the quality of our earnings and as a key performance measure in evaluating management. The following table reconciles the free cash flow from operations with net cash provided by operating activities, as classified on the unaudited Consolidated Statement of Cash Flows in Part I, Item 1:

Nine Months Ended	September 27, 2020	September 29, 2019
Net cash provided by operating activities	\$ 1,296	\$ 587
Capital expenditures	(622)	(606)
Free cash flow from operations	\$ 674	\$ (19)
Cash flows as a percentage of net earnings:		
Net cash provided by operating activities	60%	24 %
Free cash flow from operations	31%	(1)%

## ADDITIONAL FINANCIAL INFORMATION

### ENVIRONMENTAL MATTERS AND OTHER CONTINGENCIES

For a discussion of environmental matters and other contingencies, see Note M to the unaudited Consolidated Financial Statements in Part I, Item 1. Except as otherwise noted in Note M, we do not expect our aggregate liability with respect to these matters to have a material impact on our results of operations, financial condition or cash flows.

### APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on the unaudited Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires that we make estimates and



assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. We employ judgment in making our estimates, but they are based on historical experience, currently available information and various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

**Revenue.** Accounting for long-term contracts and programs involves the use of various techniques to estimate total contract revenue and costs. Contract estimates are based on various assumptions to project the outcome of future events that often span several years. We review and update our contract-related estimates regularly. Our estimates at the end of the third quarter included impacts from the disruptions caused by COVID-19. Given the uncertainties around the pandemic, including its duration and potential future disruptions to our supply chain or workforce, it is reasonably possible that the actual impact of the pandemic on contract costs could be materially different than our current estimates. The United States and other governments have taken steps to provide relief. Where our customer has agreed to reimburse certain costs, such as provided for by the CARES Act, we have included those recoveries in our estimates of revenue. To the extent the U.S. government provides for reimbursement of additional costs through legislation and the DoD has available funds, we will seek reimbursement as appropriate.

We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date on a contract is recognized in the period the adjustment is identified. The aggregate impact of adjustments in contract estimates increased our operating earnings (and diluted earnings per share) by \$84 (\$0.23) and \$169 (\$0.46) for the three- and nine-month periods ended September 27, 2020, and \$81 (\$0.22) and \$220 (\$0.60) for the three- and nine-month periods ended September 29, 2019, respectively. No adjustment on any one contract was material to the unaudited Consolidated Financial Statements for the three- and nine-month periods ended September 27, 2020, or September 29, 2019.

**Long-lived Assets and Goodwill.** We review long-lived assets, including intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses, where identified, are measured as the excess of the carrying value of the long-lived assets over its estimated fair value as determined by discounted cash flows. For further discussion of our methods and assumptions, see the discussion in our Annual Report on Form 10-K for the year ended December 31, 2019.

The COVID-19 outbreak has caused significant disruptions to national and global economies and government activities, which has impacted our businesses. As of the end of the quarter, we have not identified a triggering event requiring an impairment test for our goodwill, intangibles or other long-lived assets. In our Aerospace segment, which has experienced a more significant impact from the outbreak, we do not believe the impact represents a longer-term change that would indicate that the carrying value of the segment's intangibles and long-lived assets may not be recoverable or that the Aerospace reporting unit's estimated fair value has been significantly affected.

Our Information Technology reporting unit's estimated fair value exceeded its carrying value by approximately 25% as of December 31, 2019. While a material change in the reporting unit's fair value or carrying value could put it at risk of goodwill impairment, we currently do not expect the COVID-19 disruptions to our IT services business to have a significant impact on the estimated fair value of the reporting unit.

**Other.** Other significant estimates include those related to income taxes, pension and other post-retirement benefits, workers' compensation, warranty obligations, and litigation and other contingencies. We believe our judgment is applied consistently and produces financial information that fairly depicts our results of operations for all periods presented. For a full discussion of our critical accounting policies, see our Annual Report on Form 10-K for the year ended December 31, 2019. For a discussion of new accounting standards that have been issued by the FASB but are not yet effective, see Note A to the unaudited Consolidated Financial Statements in Part I, Item 1.

## GUARANTOR FINANCIAL INFORMATION

The fixed- and floating-rate notes described in Note I to the unaudited Consolidated Financial Statements in Part I, Item 1, issued by General Dynamics Corporation (the parent), are fully and unconditionally guaranteed on an unsecured, joint and several basis by several of the parent's 100%-owned subsidiaries (the guarantors). The guarantees rank equally in right of payment with each other and all other existing and future senior unsecured indebtedness of such guarantors. A listing of the guarantors is included in an exhibit to this Form 10-Q.

Under the relevant indenture, the guarantee of each guarantor is limited to the maximum amount that can be guaranteed without rendering the guarantee voidable under applicable laws relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. Each indenture also provides that, in the event (1) of a merger, consolidation or sale or disposition of all or substantially all of the assets of a guarantor (other than a transaction with the parent or any of its subsidiaries) or (2) there occurs a transfer, sale or other disposition of the voting stock of a guarantor so that the guarantor is no longer a subsidiary of the parent, then the guarantor or the entity acquiring the assets (in the event of the sale or other disposition of all or substantially all of the assets of a guarantor) will be released and relieved of any obligations under the guarantee.

The following summarized financial information presents the parent and guarantors (collectively, the combined obligor group) on a combined basis. The summarized financial information of the combined obligor group excludes net investment in and earnings of subsidiaries related to interests held by the combined obligor group in subsidiaries that are not guarantors of the notes.

## STATEMENT OF EARNINGS INFORMATION

Nine Months Ended	September 27, 2020
Revenue	\$ 9,401
Operating costs and expenses, excluding G&A	(8,039)
Net Earnings	478



**BALANCE SHEET INFORMATION**

	September 27, 2020	December 31, 2019
Cash and equivalents	\$ 752	\$ 606
Other current assets	2,547	2,367
Noncurrent assets	2,849	2,549
Total assets	\$ 6,148	\$ 5,522
Short-term debt and current portion of long-term debt	\$ 2,996	\$ 2,497
Other current liabilities	2,822	2,642
Long-term debt	9,917	8,965
Other noncurrent liabilities	5,352	5,665
Total liabilities	\$ 21,087	\$ 19,769

The summarized balance sheet information presented above includes the funded status of the company's primary domestic qualified defined-benefit pension plans as the parent has the ultimate obligation for the plans.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes with respect to this item from the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2019.

## ITEM 4. CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 27, 2020. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, on September 27, 2020, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 27, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The certifications of the company's Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report.

## FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "outlook," "estimates," "should" and variations of these words and similar expressions are intended to identify forward-looking statements. Examples include projections of revenue, earnings, operating margin, segment performance, cash flows, contract awards, aircraft production, deliveries and backlog. In making these statements we rely on assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments as well as other factors we consider appropriate under the circumstances. We believe our estimates and judgments are reasonable based on information available to us at the time. Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation, the risk factors discussed in Part II, Item 1A of this Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019. These factors include:

- general U.S. and international political and economic conditions;
- the negative impact of the COVID-19 outbreak, or other similar outbreaks;
- decreases in U.S. government defense spending or changing priorities within the defense budget;
- termination or restructuring of government contracts due to unilateral government action;
- differences in anticipated and actual program performance, including the ability to perform under long-term, fixed-price contracts within estimated costs, and performance issues with key suppliers and subcontractors;
- expected recovery on contract claims and requests for equitable adjustment;
- changing customer demand or preferences for business aircraft, including the effects of economic conditions on the business-aircraft market;
- potential for changing prices for energy and raw materials;
- the status or outcome of legal and/or regulatory proceedings;
- potential effects of audits and reviews by government agencies of our government contract performance, compliance and internal control systems and policies;
- risks and uncertainties relating to our acquisitions and joint ventures; and
- potential for cybersecurity events and other disruptions.

All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to General Dynamics or any person acting on our behalf are qualified by the cautionary statements in this section. We do not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report. These factors may be revised or supplemented in subsequent reports on SEC Forms 10-Q and 8-K.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For information relating to legal proceedings, see Note M to the unaudited Consolidated Financial Statements in Part I, Item 1.

### ITEM 1A. RISK FACTORS

Other than the risk factor identified below, there have been no material changes with respect to this item from the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2019.

**Our business may continue to be negatively impacted by the recent Coronavirus (COVID-19) outbreak or other similar outbreaks.** The recent outbreak of COVID-19 has had, and could continue to have, a negative effect on our business, results of operations and financial condition. Effects include disruptions or restrictions on our employees' ability to work effectively, as well as temporary closures of our facilities or the facilities of our customers or suppliers, which can affect our ability to perform on our contracts. Resulting cost increases may not be fully recoverable on our contracts or adequately covered by insurance, which could impact our profitability. In addition, the outbreak of COVID-19 has resulted in a widespread health crisis that is adversely affecting the economies and financial markets of many countries, which could result in an economic downturn that may negatively affect demand for our products and services. The imposition of quarantine and travel restrictions has affected and may continue to negatively affect portions of our business, particularly our Aerospace and Information Technology segments. The extent to which COVID-19 continues to impact our business, results of operations and financial condition is highly uncertain and will depend on future developments. Such developments may include the geographic spread and duration of the virus, the severity of the disease and the actions that may be taken by various governmental authorities and other third parties in response to the outbreak. Other outbreaks of contagious diseases or other adverse public health developments in countries where we operate or our customers are located could similarly affect our business in the future.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about our third-quarter purchases of equity securities that are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

Period	Total Number of Shares	Average Price per Share
<i>Shares Delivered or Withheld Pursuant to Restricted Stock Vesting*</i>		
6/29/20-7/26/20	173	\$ 148.96
7/27/20-8/23/20	509	146.84
8/24/20-9/27/20	601	150.27
	<u>1,283</u>	<u>\$ 148.73</u>

\* Represents shares withheld by, or delivered to, us pursuant to provisions in agreements with recipients of restricted stock granted under our equity compensation plans that allow us to withhold, or the recipient to deliver to us, the number of shares with a fair value equal to the statutory tax withholding due upon vesting of the restricted shares.

On March 4, 2020, the board of directors authorized management to repurchase up to 10 million additional shares of the company's outstanding common stock on the open market. We did not repurchase any shares in the third quarter of 2020. On September 27, 2020, 13 million shares remained authorized by our board of directors for repurchase.

We did not make any unregistered sales of equity securities in the third quarter of 2020.

**ITEM 6. EXHIBITS**

- 22            [Subsidiary Guarantors \(incorporated herein by reference from the company's quarterly report on Form 10-Q for the quarter ended June 28, 2020, filed with the Commission July 29, 2020\)](#)
- 31.1        [Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\\*](#)
- 31.2        [Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\\*](#)
- 32.1        [Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\\*](#)
- 32.2        [Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\\*](#)
- 101.INS     Inline eXtensible Business Reporting Language (XBRL) Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH     Inline XBRL Taxonomy Extension Schema Document\*
- 101.CAL     Inline XBRL Taxonomy Extension Calculation Linkbase Document\*
- 101.DEF     Inline XBRL Taxonomy Extension Definition Linkbase Document\*
- 101.LAB     Inline XBRL Taxonomy Extension Label Linkbase Document\*
- 101.PRE     Inline XBRL Taxonomy Extension Presentation Linkbase Document\*
- 104            Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

\* Filed or furnished electronically herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENERAL DYNAMICS CORPORATION

by 

William A. Moss

Vice President and Controller

(Authorized Officer and Chief Accounting Officer)

Dated: October 28, 2020