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 29, 2019

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-3671

GENERAL DYNAMICS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-1673581**
State or other jurisdiction of incorporation or organization	*I.R.S. employer identification no.*
11011 Sunset Hills Road Reston, Virginia	**20190**
Address of principal executive offices	*Zip code*

(703) 876-3000
Registrant's telephone number, including area code

2941 Fairview Park Drive, Suite 100, Falls Church, Virginia 22042-4513
(Former name or former address, if changed since last report.)

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 _✓_

289,306,108 shares of the registrant's common stock, $1 par value per share, were outstanding on September 29, 2019.

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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 29, 2019	Three Months Ended September 30, 2018
Revenue:		
Products	$ 5,789	$ 4,842
Services	3,972	4,252
	9,761	9,094
Operating costs and expenses:		
Products	(4,640)	(3,797)
Services	(3,333)	(3,610)
General and administrative (G&A)	(572)	(552)
	(8,545)	(7,959)
Operating earnings	1,216	1,135
Interest, net	(114)	(114)
Other, net	(12)	2
Earnings from continuing operations before income tax	1,090	1,023
Provision for income tax, net	(177)	(159)
Earnings from continuing operations	913	864
Discontinued operations, net of tax	—	(13)
Net earnings	$ 913	$ 851
Earnings per share		
Basic:		
Continuing operations	$ 3.17	$ 2.92
Discontinued operations	—	(0.04)
Net earnings	$ 3.17	$ 2.88
Diluted:		
Continuing operations	$ 3.14	$ 2.89
Discontinued operations	—	(0.04)
Net earnings	$ 3.14	$ 2.85

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

CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)

	Nine Months Ended	
(Dollars in millions, except per-share amounts)	September 29, 2019	September 30, 2018
Revenue:		
Products	$ 16,441	$ 14,172
Services	12,136	11,643
	28,577	25,815
Operating costs and expenses:		
Products	(13,217)	(11,045)
Services	(10,258)	(9,838)
G&A	(1,782)	(1,701)
	(25,257)	(22,584)
Operating earnings	3,320	3,231
Interest, net	(350)	(244)
Other, net	18	(34)
Earnings from continuing operations before income tax	2,988	2,953
Provision for income tax, net	(524)	(504)
Earnings from continuing operations	2,464	2,449
Discontinued operations, net of tax	—	(13)
Net earnings	$ 2,464	$ 2,436
Earnings per share		
Basic:		
Continuing operations	$ 8.55	$ 8.27
Discontinued operations	—	(0.04)
Net earnings	$ 8.55	$ 8.23
Diluted:		
Continuing operations	$ 8.47	$ 8.16
Discontinued operations	—	(0.04)
Net earnings	$ 8.47	$ 8.12

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended		Nine Months Ended	
(Dollars in millions)	**September 29, 2019**	September 30, 2018	**September 29, 2019**	September 30, 2018
Net earnings	$ 913	$ 851	$ 2,464	$ 2,436
Gains on cash flow hedges	2	61	70	40
Unrealized gains on marketable securities	1	—	1	—
Foreign currency translation adjustments	(109)	85	47	(130)
Change in retirement plans' funded status	66	84	188	247
Other comprehensive (loss) income, pretax	(40)	230	306	157
Provision for income tax, net	(15)	(33)	(59)	(60)
Other comprehensive (loss) income, net of tax	(55)	197	247	97
Comprehensive income	$ 858	$ 1,048	$ 2,711	$ 2,533

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

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited) September 29, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and equivalents	$ 974	$ 963
Accounts receivable	3,489	3,759
Unbilled receivables	8,077	6,576
Inventories	6,573	5,977
Other current assets	1,038	914
Total current assets	20,151	18,189
Noncurrent assets:		
Property, plant and equipment, net	4,217	3,978
Intangible assets, net	2,376	2,585
Goodwill	19,617	19,594
Other assets	2,427	1,062
Total noncurrent assets	28,637	27,219
Total assets	$ 48,788	$ 45,408
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 4,661	$ 973
Accounts payable	2,999	3,179
Customer advances and deposits	6,854	7,270
Other current liabilities	3,713	3,317
Total current liabilities	18,227	14,739
Noncurrent liabilities:		
Long-term debt	8,989	11,444
Other liabilities	8,059	7,493
Commitments and contingencies (see Note M)		
Total noncurrent liabilities	17,048	18,937
Shareholders' equity:		
Common stock	482	482
Surplus	2,999	2,946
Retained earnings	30,909	29,326
Treasury stock	(17,346)	(17,244)
Accumulated other comprehensive loss	(3,531)	(3,778)
Total shareholders' equity	13,513	11,732
Total liabilities and shareholders' equity	$ 48,788	$ 45,408

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

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Nine Months Ended	
(Dollars in millions)	September 29, 2019	September 30, 2018
Cash flows from operating activities - continuing operations:		
Net earnings	$ 2,464	$ 2,436
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation of property, plant and equipment	352	315
Amortization of intangible and finance lease right-of-use assets	273	227
Equity-based compensation expense	103	110
Deferred income tax benefit	(72)	(66)
Discontinued operations, net of tax	—	13
(Increase) decrease in assets, net of effects of business acquisitions:		
Accounts receivable	253	472
Unbilled receivables	(1,603)	(1,625)
Inventories	(646)	(854)
Increase (decrease) in liabilities, net of effects of business acquisitions:		
Accounts payable	(164)	(324)
Customer advances and deposits	(565)	112
Other, net	192	265
Net cash provided by operating activities	587	1,081
Cash flows from investing activities:		
Capital expenditures	(606)	(447)
Business acquisitions, net of cash acquired	(19)	(10,039)
Other, net	21	169
Net cash used by investing activities	(604)	(10,317)
Cash flows from financing activities:		
Proceeds from commercial paper, net	947	1,668
Dividends paid	(858)	(801)
Purchases of common stock	(231)	(533)
Proceeds from fixed-rate notes	—	6,461
Proceeds from floating-rate notes	—	1,000
Repayment of CSRA accounts receivable purchase agreement	—	(450)
Other, net	207	(68)
Net cash provided by financing activities	65	7,277
Net cash used by discontinued operations	(37)	(14)
Net increase (decrease) in cash and equivalents	11	(1,973)
Cash and equivalents at beginning of period	963	2,983
Cash and equivalents at end of period	$ 974	$ 1,010
Supplemental cash flow information:		
Income tax payments, net	$ 487	$ 305
Interest payments	$ 271	$ 144

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Three Months Ended					
	Common Stock		Retained	Treasury	Accumulated Other Comprehensive	Total Shareholders'
(Dollars in millions)	Par	Surplus	Earnings	Stock	Loss	Equity
June 30, 2019	$ 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
Shares purchased	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	(55)	(55)
September 29, 2019	$ 482	$ 2,999	$ 30,909	$ (17,346)	$ (3,531)	$ 13,513
July 1, 2018	$ 482	$ 2,865	$ 28,115	$ (15,910)	$ (3,558)	$ 11,994
Net earnings	—	—	851	—	—	851
Cash dividends declared	—	—	(275)	—	—	(275)
Equity-based awards	—	49	—	26	—	75
Shares purchased	—	—	—	(87)	—	(87)
Other comprehensive income	—	—	—	—	197	197
September 30, 2018	$ 482	$ 2,914	$ 28,691	$ (15,971)	$ (3,361)	$ 12,755

	Nine Months Ended					
	Common Stock		Retained	Treasury	Accumulated Other Comprehensive	Total Shareholders'
(Dollars in millions)	Par	Surplus	Earnings	Stock	Loss	Equity
December 31, 2018	$ 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
September 29, 2019	$ 482	$ 2,999	$ 30,909	$ (17,346)	$ (3,531)	$ 13,513
December 31, 2017	$ 482	$ 2,872	$ 26,444	$ (15,543)	$ (2,820)	$ 11,435
Cumulative-effect adjustments*	—	—	638	—	(638)	—
Net earnings	—	—	2,436	—	—	2,436
Cash dividends declared	—	—	(827)	—	—	(827)
Equity-based awards	—	42	—	95	—	137
Shares purchased	—	—	—	(523)	—	(523)
Other comprehensive income	—	—	—	—	97	97
September 30, 2018	$ 482	$ 2,914	$ 28,691	$ (15,971)	$ (3,361)	$ 12,755

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

* Reflects the cumulative effects of Accounting Standards Update (ASU) 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which we adopted on January 1, 2018.

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 29, 2019, are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

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 29, 2019, and September 30, 2018.

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, 2018.

Discontinued Operations, Net of Tax. In the third quarter of 2018, we disposed of certain CSRA operations to address an organizational conflict of interest with respect to services provided to a government customer. In accordance with GAAP, the sale did not result in a gain for financial reporting purposes. However, the sale generated a taxable gain, resulting in tax expense of $13.

Accounting Standards Updates. Effective January 1, 2019, we adopted Accounting Standards Codification (ASC) Topic 842, Leases. ASC Topic 842 requires the recognition of lease rights and obligations as assets and liabilities on the balance sheet. Previously, lessees were not required to recognize on the balance sheet assets and liabilities arising from operating leases. As we elected the cumulative-effect adoption method, prior-period information has not been restated.

The standard provided several optional practical expedients for use in transition. We elected to use what the Financial Accounting Standards Board (FASB) has deemed the "package of practical expedients," which allowed us not to reassess our previous conclusions about lease identification, lease classification and the accounting treatment for initial direct costs. We did not elect the practical expedient pertaining to the use of hindsight.

The most significant effects of the standard on our Consolidated Financial Statements are (1) the recognition of new right-of-use assets and lease liabilities on our Consolidated Balance Sheet for our operating leases, and (2) significant new disclosures about our leasing activities (see Note N). On January 1, 2019, we recognized operating lease liabilities and right-of-use assets of $1.4 billion based on the present value of the remaining lease payments over the lease term. The adoption did not result in a cumulative-effect adjustment to retained earnings. The new standard did not have a material impact on our results of operations, financial condition or cash flows.

There are several other accounting standards that have been issued by the FASB but are not yet effective, including Accounting Standards Update (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 intend to adopt the standard on the effective date of January 1, 2020. We have not yet determined the effect of the ASU on our results of operations, financial condition or cash flows.

B. ACQUISITIONS AND DIVESTITURES, GOODWILL, AND INTANGIBLE ASSETS

CSRA Acquisition

On April 3, 2018, we acquired 100% of the outstanding shares of CSRA Inc. (CSRA) for $41.25 per share in cash plus the assumption of outstanding net debt. CSRA is a provider of IT solutions to the defense, intelligence and federal civilian markets and is included in our Information Technology segment.

Fair Value of Net Assets Acquired. The following table summarizes the allocation of the $9.7 billion cash purchase price to the estimated fair values of the assets acquired and liabilities assumed on the acquisition date, with the excess recorded as goodwill:

Cash and equivalents	$	45
Accounts receivable		155
Unbilled receivables		415
Other current assets		303
Property, plant and equipment, net		326
Intangible assets, net		2,066
Goodwill		7,935
Other noncurrent assets		369
Total assets	$	11,614
Accounts payable	$	(135)
Customer advances and deposits		(151)
Current lease obligation		(51)
Other current liabilities		(434)
Noncurrent lease obligation		(207)
Noncurrent deferred tax liability		(355)
Other noncurrent liabilities		(532)
Total liabilities	$	(1,865)
Net assets acquired	$	9,749

Pro Forma Information. The following pro forma information presents our consolidated revenue and earnings from continuing operations as if the acquisition of CSRA and the related financing transactions had occurred on January 1, 2017:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
Revenue	$	9,094	$	27,156
Earnings from continuing operations		872		2,470
Diluted earnings per share from continuing operations	$	2.92	$	8.23

The pro forma information was prepared by combining our reported historical results with the historical results of CSRA for the pre-acquisition periods. In addition, the reported historical amounts were adjusted for the following items, net of associated tax effects:

- The impact of acquisition financing.
- The removal of certain CSRA operations we were required by a government customer to dispose of to address an organizational conflict of interest with respect to services provided to the customer. We completed the sale of these operations in the third quarter of 2018.
- The removal of CSRA's historical pre-acquisition intangible asset amortization expense and debt-related interest expense.
- The impact of intangible asset amortization expense assuming our estimate of fair value was applied on January 1, 2017.
- The payment of acquisition-related costs assuming they were incurred on January 1, 2017.

The pro forma information does not reflect the realization of expected cost savings or synergies from the acquisition, and does not reflect what our combined results of operations would have been had the acquisition occurred on January 1, 2017.

Other Acquisitions and Divestitures

In the first nine months of 2019, we acquired two businesses in our Aerospace segment and a business in our Missions Systems segment for a total of $19. In 2018, we acquired five businesses in addition to the acquisition of CSRA for approximately $400: Hawker Pacific, a leading provider of integrated aviation solutions across Asia Pacific and the Middle East, and two fixed-base operation (FBO) businesses in our Aerospace segment; a maintenance and service provider for the German Army and other international customers in our Combat Systems segment; and a provider of specialized transmitters and receivers in our Mission Systems segment.

The operating results of these acquisitions have been included with our reported results since the respective closing dates. The purchase prices of the acquisitions have been allocated to the estimated fair value of net tangible and intangible assets acquired, with any excess purchase price recorded as goodwill.

In the first nine months of 2019, we completed the sale of a business in our Information Technology segment that was classified as held for sale on the Consolidated Balance Sheet on December 31, 2018. In 2018, we completed the sale of a commercial health products business during the first quarter and the sale of a public-facing contact-center business during the fourth quarter in our Information Technology segment. For the nine-month periods ended September 29, 2019, and September 30, 2018, the proceeds from the sale of businesses were not material and are included in other investing activities, net, in the unaudited Consolidated Statement of Cash Flows.

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
December 31, 2018 (a)	$ 2,813	$ 2,633	$ 9,622	$ 4,229	$ 297	$ 19,594
Acquisitions/divestitures (b)	2	15	77	6	—	100
Other (c)	(16)	14	—	(75)	—	(77)
September 29, 2019 (a)	$ 2,799	$ 2,662	$ 9,699	$ 4,160	$ 297	$ 19,617

(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 adjustments during the purchase price allocation period.

(c) Consists primarily of adjustments for foreign currency translation. Also includes an estimated allocation of goodwill in our Mission Systems reporting unit associated with a non-core operation classified as held for sale on the unaudited Consolidated Balance Sheet on September 29, 2019. As we expect this operation to be divested within the next 12 months, the assets and liabilities held for sale are included in other current assets and liabilities on the unaudited Consolidated Balance Sheet.

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 29, 2019			December 31, 2018		
Contract and program intangible assets (b)	$ 3,775	$ (1,717)	$ 2,058	$ 3,771	$ (1,531)	$ 2,240
Trade names and trademarks	465	(188)	277	469	(177)	292
Technology and software	165	(126)	39	165	(116)	49
Other intangible assets	159	(157)	2	159	(155)	4
Total intangible assets	$ 4,564	$ (2,188)	$ 2,376	$ 4,564	$ (1,979)	$ 2,585

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

Amortization expense for intangible assets was $69 and $209 for the three- and nine-month periods ended September 29, 2019, and $86 and $190 for the three- and nine-month periods ended September 30, 2018, 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 lifecycle (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 72% and 74% of our revenue for the three- and nine-month periods ended September 29, 2019, and 75% and 76% of our revenue for the three- and nine-month periods ended September 30, 2018, 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 28% and 26% of our revenue for the three- and nine-month periods ended September 29, 2019, and 25% and 24%

of our revenue for the three- and nine-month periods ended September 30, 2018, 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 29, 2019, we had $67.4 billion of remaining performance obligations, which we also refer to as total backlog. We expect to recognize approximately 55% of our remaining performance obligations as revenue by year-end 2020, an additional 30% by year-end 2022 and the balance thereafter. On December 31, 2018, we had $67.9 billion of remaining performance obligations, at which time we expected to recognize approximately 45% of these remaining performance obligations as revenue in 2019, an additional 35% by year-end 2021 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 29, 2019	September 30, 2018	**September 29, 2019**	September 30, 2018
Revenue	$ 95	$ 96	$ 263	$ 302
Operating earnings	81	103	220	283
Diluted earnings per share	$ 0.22	$ 0.27	$ 0.60	$ 0.75

No adjustment on any one contract was material to the unaudited Consolidated Financial Statements for the three- and nine-month periods ended September 29, 2019, or September 30, 2018.

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 29, 2019	September 30, 2018	**September 29, 2019**	September 30, 2018
Aircraft manufacturing and completions	$ 1,881	$ 1,437	$ 5,169	$ 4,165
Aircraft services	523	525	1,567	1,507
Pre-owned aircraft	91	69	135	79
Total Aerospace	2,495	2,031	6,871	5,751
Military vehicles	1,137	991	3,361	2,937
Weapons systems, armament and munitions	474	425	1,336	1,251
Engineering and other services	129	107	338	309
Total Combat Systems	1,740	1,523	5,035	4,497
IT services	2,071	2,307	6,398	5,887
Total Information Technology	2,071	2,307	6,398	5,887
C4ISR solutions	1,220	1,230	3,655	3,475
Total Mission Systems	1,220	1,230	3,655	3,475
Nuclear-powered submarines	1,567	1,369	4,482	4,103
Surface ships	402	445	1,376	1,401
Repair and other services	266	189	760	701
Total Marine Systems	2,235	2,003	6,618	6,205
Total revenue	$ 9,761	$ 9,094	$ 28,577	$ 25,815

Revenue by contract type was as follows:

Three Months Ended September 29, 2019	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Revenue
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
Three Months Ended September 30, 2018						
Fixed-price	$ 1,807	$ 1,309	$ 941	$ 695	$ 1,284	$ 6,036
Cost-reimbursement	—	204	955	499	718	2,376
Time-and-materials	224	10	411	36	1	682
Total revenue	$ 2,031	$ 1,523	$ 2,307	$ 1,230	$ 2,003	$ 9,094

Nine Months Ended September 29, 2019	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Revenue
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
Nine Months Ended September 30, 2018						
Fixed-price	$ 5,171	$ 3,892	$ 2,387	$ 1,973	$ 3,961	$ 17,384
Cost-reimbursement	—	580	2,462	1,390	2,241	6,673
Time-and-materials	580	25	1,038	112	3	1,758
Total revenue	$ 5,751	$ 4,497	$ 5,887	$ 3,475	$ 6,205	$ 25,815

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 29, 2019	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Revenue
U.S. government:						
Department of Defense (DoD)	$ 87	$ 931	$ 875	$ 861	$ 2,157	$ 4,911
Non-DoD	—	3	1,141	135	—	1,279
Foreign Military Sales (FMS)	18	58	3	12	43	134
Total U.S. government	105	992	2,019	1,008	2,200	6,324
U.S. commercial	1,420	62	52	33	31	1,598
Non-U.S. government	64	663	—	145	3	875
Non-U.S. commercial	906	23	—	34	1	964
Total revenue	$ 2,495	$ 1,740	$ 2,071	$ 1,220	$ 2,235	$ 9,761
Three Months Ended September 30, 2018						
U.S. government:						
DoD	$ 35	$ 698	$ 864	$ 854	$ 1,895	$ 4,346
Non-DoD	—	2	1,373	130	—	1,505
FMS	13	65	8	10	37	133
Total U.S. government	48	765	2,245	994	1,932	5,984
U.S. commercial	827	59	41	38	69	1,034
Non-U.S. government	59	677	21	156	2	915
Non-U.S. commercial	1,097	22	—	42	—	1,161
Total revenue	$ 2,031	$ 1,523	$ 2,307	$ 1,230	$ 2,003	$ 9,094

Nine Months Ended September 29, 2019	Aerospace	Combat Systems	Information Technology	Mission Systems	Marine Systems	Total Revenue
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	3,991	171	137	107	97	4,503
Non-U.S. government	264	1,951	13	492	7	2,727
Non-U.S. commercial	2,307	43	—	91	4	2,445
Total revenue	$ 6,871	$ 5,035	$ 6,398	$ 3,655	$ 6,618	$ 28,577
Nine Months Ended September 30, 2018						
U.S. government:						
DoD	$ 165	$ 1,965	$ 2,321	$ 2,360	$ 5,877	$ 12,688
Non-DoD	—	6	3,349	378	1	3,734
FMS	48	217	23	31	105	424
Total U.S. government	213	2,188	5,693	2,769	5,983	16,846
U.S. commercial	2,586	175	122	101	213	3,197
Non-U.S. government	212	2,086	72	489	8	2,867
Non-U.S. commercial	2,740	48	—	116	1	2,905
Total revenue	$ 5,751	$ 4,497	$ 5,887	$ 3,475	$ 6,205	$ 25,815

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 29, 2019, were not materially impacted by any other factors except for the delays in payment on an international wheeled armored vehicle contract in our Combat Systems segment, which contributed to growth in contract assets as further discussed in Note G.

Revenue recognized for the three- and nine-month periods ended September 29, 2019, and September 30, 2018, that was included in the contract liability balance at the beginning of each year was $1.1 billion and $4.0 billion, and $875 and $3.5 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. Basic weighted average shares outstanding have decreased in 2019 and 2018 due to share repurchases. See Note K for further discussion of our share repurchases. 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 29, 2019	September 30, 2018	**September 29, 2019**	September 30, 2018
Basic weighted average shares outstanding	288,374	295,339	288,130	295,964
Dilutive effect of stock options and restricted stock/RSUs*	2,518	3,748	2,704	4,114
Diluted weighted average shares outstanding	290,892	299,087	290,834	300,078

* 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 5,270 and 4,899 for the three- and nine-month periods ended September 29, 2019, and 3,447 and 3,043 for the three- and nine-month periods ended September 30, 2018, 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 29, 2019, or December 31, 2018.

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 29, 2019, and December 31, 2018, and the basis for determining their fair values:

Financial Assets (Liabilities)	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 29, 2019				
Measured at fair value:					
Marketable securities held in trust:					
Cash and equivalents	$ 7	$ 7	$ 1	$ 6	$ —
Available-for-sale debt securities	135	135	—	135	—
Equity securities	52	52	52	—	—
Other investments	4	4	—	—	4
Cash flow hedges	(10)	(10)	—	(10)	—
Measured at amortized cost:					
Short- and long-term debt principal	(13,733)	(14,073)	—	(14,073)	—
	December 31, 2018				
Measured at fair value:					
Marketable securities held in trust:					
Cash and equivalents	$ 29	$ 29	$ 23	$ 6	$ —
Available-for-sale debt securities	121	121	—	121	—
Equity securities	52	52	52	—	—
Other investments	4	4	—	—	4
Cash flow hedges	(69)	(69)	—	(69)	—
Measured at amortized cost:					
Short- and long-term debt principal	(12,518)	(12,346)	—	(12,346)	—

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 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 29, 2019	December 31, 2018
Deferred tax asset	$ 42	$ 38
Deferred tax liability	(526)	(577)
Net deferred tax liability	$ (484)	$ (539)

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 2017 and is currently reviewing our 2018 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 29, 2019, 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.

Income Tax Provision. The U.S. Treasury Department and the IRS are expected to issue further guidance related to the Tax Cuts and Jobs Act (tax reform) enacted in 2017 that could impact our provision for income taxes in future periods. As a result, we believe it is reasonably possible there may be changes to provisional interpretations and assumptions we made in our initial application of tax reform provisions. We do not expect the impact of any changes to have a material impact 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 29, 2019	December 31, 2018
Unbilled revenue	$ 33,170	$ 27,908
Advances and progress billings	(25,093)	(21,332)
Net unbilled receivables	$ 8,077	$ 6,576

The increase in net unbilled receivables during the nine-month period ended September 29, 2019, was due primarily to an international wheeled armored vehicle contract in our Combat Systems segment. At September 29, 2019, the net unbilled receivable related to this contract was $2.6 billion. Our contract is with the Canadian government, who is selling the vehicles to an international customer. We have experienced delays in payment under the contract. We continue to meet our obligations under the contract and are entitled to payment for work performed. Therefore, we expect to collect the full amount currently outstanding.

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 29, 2019	December 31, 2018
Work in process	$ 4,706	$ 4,357
Raw materials	1,670	1,504
Finished goods	46	33
Pre-owned aircraft	151	83
Total inventories	$ 6,573	$ 5,977

The increase in total inventories during the nine-month period ended September 29, 2019, was due primarily to the ramp-up in production of the new G600 aircraft in our Aerospace segment. We received both type and production certification from the U.S. Federal Aviation Administration (FAA) for the G600 aircraft in June 2019 and delivered the first G600 aircraft in the third quarter of 2019. The increase in total inventories was also driven by production of initial units of the newly-announced G700 aircraft.

I. DEBT

Debt consisted of the following:

		September 29, 2019	December 31, 2018
Fixed-rate notes due:	Interest rate:		
May 2020	2.875%	$ 2,000	$ 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
May 2025	3.500%	750	750
August 2026	2.125%	500	500
November 2027	2.625%	500	500
May 2028	3.750%	1,000	1,000
November 2042	3.600%	500	500
Floating-rate notes due:			
May 2020	3-month LIBOR + 0.29%	500	500
May 2021	3-month LIBOR + 0.38%	500	500
Commercial paper	2.117%	1,800	850
Other	Various	433	168
Total debt principal		13,733	12,518
Less unamortized debt issuance costs and discounts		83	101
Total debt		13,650	12,417
Less current portion		4,661	973
Long-term debt		$ 8,989	$ 11,444

Our fixed- and floating-rate notes are fully and unconditionally guaranteed by several of our 100%-owned subsidiaries. See Note Q for condensed consolidating financial statements. We have the option to redeem the fixed-rate notes prior to their maturity in whole or in part for the principal plus any accrued but unpaid interest and applicable make-whole amounts.

On September 29, 2019, we had $1.8 billion of commercial paper outstanding with a dollar-weighted average interest rate of 2.117%. We have $5 billion in committed bank credit facilities to support our commercial paper issuances and for general corporate purposes and working capital needs. These credit facilities include a $2 billion 364-day facility expiring in March 2020, a $1 billion multi-year facility expiring in November 2020 and a $2 billion multi-year facility expiring in March 2023. We may renew or replace these credit facilities in whole or in part at or prior to their expiration dates. Our credit facilities are guaranteed by several of our 100%-owned subsidiaries. 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 29, 2019.

J. OTHER LIABILITIES

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

	September 29, 2019	December 31, 2018
Salaries and wages	$ 968	$ 952
Workers' compensation	274	244
Retirement benefits	280	272
Operating lease liabilities	241	—
Fair value of cash flow hedges	62	141
Other (a)	1,888	1,708
Total other current liabilities	$ 3,713	$ 3,317
Retirement benefits	$ 4,151	$ 4,422
Operating lease liabilities	1,230	—
Customer deposits on commercial contracts	527	726
Deferred income taxes	526	577
Other (b)	1,625	1,768
Total other liabilities	$ 8,059	$ 7,493

(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 December 5, 2018, 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 29, 2019, we repurchased 1.1 million of our outstanding shares for $184. On September 29, 2019, 6.4 million shares remained authorized by our board of directors for repurchase, approximately 2% of our total shares outstanding. We repurchased 2.5 million shares for $522 in the nine-month period ended September 30, 2018.

Dividends per Share. Our board of directors declared dividends of $1.02 and $3.06 per share for the three- and nine-month periods ended September 29, 2019, and $0.93 and $2.79 per share for the three- and nine-month periods ended September 30, 2018, respectively. We paid cash dividends of $295 and $858 for the three- and nine-month periods ended September 29, 2019, and $275 and $801 for the three- and nine-month periods ended September 30, 2018, 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:

	Losses on Cash Flow Hedges	Unrealized Gains on Marketable Securities	Foreign Currency Translation Adjustments	Changes in Retirement Plans' Funded Status	AOCL
December 31, 2018	$ (71)	$ —	$ 102	$ (3,809)	$ (3,778)
Other comprehensive income, pretax	70	1	47	188	306
Provision for income tax, net	(17)	—	—	(42)	(59)
Other comprehensive income, net of tax	53	1	47	146	247
September 29, 2019	$ (18)	$ 1	$ 149	$ (3,663)	$ (3,531)
December 31, 2017	$ (94)	$ 19	$ 402	$ (3,147)	$ (2,820)
Cumulative-effect adjustments*	(4)	(19)	—	(615)	(638)
Other comprehensive income, pretax	40	—	(130)	247	157
Provision for income tax, net	(8)	—	—	(52)	(60)
Other comprehensive income, net of tax	32	—	(130)	195	97
September 30, 2018	$ (66)	$ —	$ 272	$ (3,567)	$ (3,361)

* Reflects the cumulative effects of ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which we adopted on January 1, 2018.

Current-period amounts reclassified out of AOCL related primarily to changes in our retirement plans' funded status and consisted of pretax recognized net actuarial losses of $232 and $280 for the nine-month periods ended September 29, 2019, and September 30, 2018, respectively. This was offset partially by pretax amortization of prior service credit of $16 and $36 for the nine-month periods ended September 29, 2019, and September 30, 2018, respectively. These AOCL components are included in our net periodic pension and other post-retirement benefit cost. See Note O for additional details.

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 variable-rate commercial paper and 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 29, 2019, and December 31, 2018, we held $974 and $963 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 29, 2019, and December 31, 2018, these marketable securities totaled $194 and $202, respectively, and were 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 $4.4 billion and $5.8 billion on September 29, 2019, and December 31, 2018, 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 29, 2019, and September 30, 2018. Net gains and losses reclassified to earnings from AOCL related to qualified hedges also were not material to our results of operations for the three- and nine-month periods ended September 29, 2019, and September 30, 2018, 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 29, 2019, or December 31, 2018.

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 into U.S. dollars was not material to our results of operations for the three- and nine-month periods ended September 29, 2019, or September 30, 2018. 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 29, 2019, and September 30, 2018.

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 has been 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. 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 29, 2019. 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 29, 2019, 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 29, 2019, and September 30, 2018, were as follows:

Nine Months Ended	September 29, 2019	September 30, 2018
Beginning balance	$ 480	$ 467
Warranty expense	84	87
Payments	(62)	(77)
Adjustments	(14)	(16)
Ending balance	$ 488	$ 461

N. LEASES

We determine at its inception whether an arrangement that provides us control over the use of an asset is a lease. We recognize at lease commencement a right-of-use (ROU) asset and lease liability based on the present value of the future lease payments over the lease term. We have elected not to recognize an ROU asset and lease liability for leases with terms of 12 months or less. Certain of our leases include options to extend the term of the lease for up to 30 years or to terminate the lease within 1 year. When it is reasonably certain that we will exercise the option, we include the impact of the option in the lease term for purposes of determining total future lease payments. As most of our lease agreements do not explicitly state the discount rate implicit in the lease, we use our incremental borrowing rate on the commencement date to calculate the present value of future payments.

Our leases commonly include payments that are based on the Consumer Price Index (CPI) or other similar indices. These variable lease payments are included in the calculation of the ROU asset and lease liability. Other variable lease payments, such as usage-based amounts, are excluded from the ROU asset and lease liability, and are expensed as incurred. In addition to the present value of the future lease payments, the calculation of the ROU asset also includes any deferred rent, lease pre-payments and initial direct costs of obtaining the lease, such as commissions.

In addition to the base rent, real estate leases typically contain provisions for common-area maintenance and other similar services, which are considered non-lease components for accounting purposes. For our real estate leases, we apply a practical expedient to include these non-lease components in calculating the ROU asset and lease liability. For all other types of leases, non-lease components are excluded from our ROU assets and lease liabilities and expensed as incurred.

Our leases are for office space, manufacturing facilities, and machinery and equipment. Real estate represents over 75% of our lease obligations.

The components of lease costs were as follows:

	Three Months Ended September 29, 2019	Nine Months Ended September 29, 2019
Finance lease cost:		
Amortization of right-of-use assets	$ 21	$ 64
Interest on lease liabilities	7	19
Operating lease cost	86	250
Short-term lease cost	22	54
Variable lease cost	3	5
Sublease income	(3)	(11)
Total lease costs, net	$ 136	$ 381

Additional information related to leases was as follows:

Nine Months Ended	September 29, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 247
Operating cash flows from finance leases	19
Financing cash flows from finance leases	42
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	292
Finance leases	5

Additional quantitative lease information was as follows:

	September 29, 2019
Weighted-average remaining lease term:	
Operating leases	11.0 years
Finance leases	5.2 years
Weighted-average discount rate:	
Operating leases	3%
Finance leases	9%

The following is a reconciliation of future undiscounted cash flows to the operating and finance lease liabilities, and the related ROU assets, presented on the unaudited Consolidated Balance Sheet on September 29, 2019:

Year Ended December 31	Operating Leases	Finance Leases
2019 (excluding the nine months ended September 29, 2019)	$ 81	$ 22
2020	281	81
2021	237	75
2022	191	75
2023	147	29
Thereafter	900	67
Total future lease payments	1,837	349
Less imputed interest	366	68
Present value of future lease payments	1,471	281
Less current portion of lease liabilities	241	66
Long-term lease liabilities	$ 1,230	$ 215
ROU assets	$ 1,400	$ 325

Lease liabilities are included on the Consolidated Balance Sheet in current and noncurrent other liabilities, while ROU assets are included in noncurrent other assets.

On September 29, 2019, we had additional future payments on leases that had not yet commenced of $144. These leases will commence between 2019 and 2020, and have lease terms of 1 to 20 years.

As we have not restated prior-year information for our adoption of ASC Topic 842, the following presents our future minimum lease payments for operating leases and capital leases under ASC Topic 840 on December 31, 2018:

Year Ended December 31	Operating Leases	Capital Leases
2019	$ 297	$ 92
2020	234	84
2021	196	78
2022	154	79
2023	110	30
Thereafter	698	70
Total future minimum lease payments	$ 1,689	433
Less amount representing interest	*	95
Less amount representing executory costs	*	19
Present value of net minimum lease payments	*	319
Less current maturities of capital lease liabilities	*	64
Noncurrent capital lease liabilities	*	$ 255

* Not applicable for operating leases.

O. 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 cost (credit) for the three- and nine-month periods ended September 29, 2019, and September 30, 2018, consisted of the following:

	Pension Benefits		Other Post-retirement Benefits	
Three Months Ended	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Service cost	$ 28	$ 45	$ 2	$ 3
Interest cost	150	140	9	8
Expected return on plan assets	(228)	(225)	(9)	(10)
Recognized net actuarial loss (gain)	98	94	(2)	(1)
Amortization of prior service credit	(4)	(11)	(1)	(1)
Net periodic benefit cost (credit)	$ 44	$ 43	$ (1)	$ (1)
Nine Months Ended				
Service cost	$ 84	$ 135	$ 6	$ 8
Interest cost	450	394	27	24
Expected return on plan assets	(684)	(632)	(27)	(29)
Recognized net actuarial loss (gain)	238	283	(6)	(3)
Amortization of prior service credit	(13)	(33)	(3)	(3)
Net periodic benefit cost (credit)	$ 75	$ 147	$ (3)	$ (3)

Based on recent market conditions, we adjusted our assumptions for our non-qualified supplemental retirement plans, and the third quarter of 2019 reflects a cumulative adjustment to recognize the resulting increase 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.

P. 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 September 29, 2019	Revenue September 30, 2018	Operating Earnings September 29, 2019	Operating Earnings September 30, 2018
Aerospace	$ 2,495	$ 2,031	$ 393	$ 376
Combat Systems	1,740	1,523	264	241
Information Technology	2,071	2,307	146	157
Mission Systems	1,220	1,230	185	179
Marine Systems	2,235	2,003	209	169
Corporate	—	—	19	13
Total	$ 9,761	$ 9,094	$ 1,216	$ 1,135
Nine Months Ended				
Aerospace	$ 6,871	$ 5,751	$ 1,052	$ 1,108
Combat Systems	5,035	4,497	712	701
Information Technology	6,398	5,887	456	414
Mission Systems	3,655	3,475	495	478
Marine Systems	6,618	6,205	586	548
Corporate	—	—	19	(18)
Total	$ 28,577	$ 25,815	$ 3,320	$ 3,231

Corporate operating results have two primary components: pension and other post-retirement benefit income, and stock option 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 O, 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.

Q. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The fixed- and floating-rate notes described in Note I are fully and unconditionally guaranteed on an unsecured, joint and several basis by several of our 100%-owned subsidiaries (the guarantors). The following condensed consolidating financial statements illustrate the composition of the parent, the guarantors on a combined basis (each guarantor together with its majority-owned subsidiaries) and all other subsidiaries on a combined basis.

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS (UNAUDITED)

Three Months Ended September 29, 2019	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Revenue	$ —	$ 7,660	$ 2,101	$ —	$ 9,761
Cost of sales	36	(6,257)	(1,752)	—	(7,973)
G&A	(17)	(415)	(140)	—	(572)
Operating earnings	19	988	209	—	1,216
Interest, net	(105)	(1)	(8)	—	(114)
Other, net	(6)	1	(7)	—	(12)
Earnings before income tax	(92)	988	194	—	1,090
Provision for income tax, net	32	(168)	(41)	—	(177)
Equity in net earnings of subsidiaries	973	—	—	(973)	—
Net earnings	$ 913	$ 820	$ 153	$ (973)	$ 913
Comprehensive income	$ 858	$ 813	$ 53	$ (866)	$ 858

Three Months Ended September 30, 2018	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Revenue	$ —	$ 6,811	$ 2,283	$ —	$ 9,094
Cost of sales	26	(5,518)	(1,915)	—	(7,407)
G&A	(15)	(393)	(144)	—	(552)
Operating earnings	11	900	224	—	1,135
Interest, net	(105)	(2)	(7)	—	(114)
Other, net	4	2	(4)	—	2
Earnings before income tax	(90)	900	213	—	1,023
Provision for income tax, net	8	(132)	(35)	—	(159)
Discontinued operations, net of tax	(13)	—	—	—	(13)
Equity in net earnings of subsidiaries	946	—	—	(946)	—
Net earnings	$ 851	$ 768	$ 178	$ (946)	$ 851
Comprehensive income	$ 1,048	$ 769	$ 307	$ (1,076)	$ 1,048

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS (UNAUDITED)

Nine Months Ended September 29, 2019	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Revenue	$ —	$ 22,042	$ 6,535	$ —	$ 28,577
Cost of sales	75	(18,094)	(5,456)	—	(23,475)
G&A	(58)	(1,262)	(462)	—	(1,782)
Operating earnings	17	2,686	617	—	3,320
Interest, net	(322)	—	(28)	—	(350)
Other, net	17	4	(3)	—	18
Earnings before income tax	(288)	2,690	586	—	2,988
Provision for income tax, net	94	(495)	(123)	—	(524)
Equity in net earnings of subsidiaries	2,658	—	—	(2,658)	—
Net earnings	$ 2,464	$ 2,195	$ 463	$ (2,658)	$ 2,464
Comprehensive income	$ 2,711	$ 2,182	$ 576	$ (2,758)	$ 2,711
Nine Months Ended September 30, 2018					
Revenue	$ —	$ 20,088	$ 5,727	$ —	$ 25,815
Cost of sales	54	(16,195)	(4,742)	—	(20,883)
G&A	(73)	(1,247)	(381)	—	(1,701)
Operating earnings	(19)	2,646	604	—	3,231
Interest, net	(225)	(1)	(18)	—	(244)
Other, net	(38)	6	(2)	—	(34)
Earnings before income tax	(282)	2,651	584	—	2,953
Provision for income tax, net	89	(475)	(118)	—	(504)
Discontinued operations, net of tax	(13)	—	—	—	(13)
Equity in net earnings of subsidiaries	2,642	—	—	(2,642)	—
Net earnings	$ 2,436	$ 2,176	$ 466	$ (2,642)	$ 2,436
Comprehensive income	$ 2,533	$ 2,154	$ 386	$ (2,540)	$ 2,533

CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)

September 29, 2019	Parent*	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
ASSETS					
Current assets:					
Cash and equivalents	$ 412	$ —	$ 562	—	$ 974
Accounts receivable	—	1,083	2,406	—	3,489
Unbilled receivables	—	3,268	4,809	—	8,077
Inventories	—	6,419	154	—	6,573
Other current assets	(404)	920	522	—	1,038
Total current assets	8	11,690	8,453	—	20,151
Noncurrent assets:					
Property, plant and equipment (PP&E)	341	7,486	1,630	—	9,457
Accumulated depreciation of PP&E	(88)	(4,238)	(914)	—	(5,240)
Intangible assets, net	—	219	2,157	—	2,376
Goodwill	—	7,960	11,657	—	19,617
Other assets	196	1,158	1,073	—	2,427
Net investment in subsidiaries	30,594	—	—	(30,594)	—
Total noncurrent assets	31,043	12,585	15,603	(30,594)	28,637
Total assets	$ 31,051	$ 24,275	$ 24,056	$ (30,594)	$ 48,788
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt and current portion of long-term debt	$ 4,294	$ —	$ 367	$ —	$ 4,661
Customer advances and deposits	—	3,965	2,889	—	6,854
Other current liabilities	677	4,116	1,919	—	6,712
Total current liabilities	4,971	8,081	5,175	—	18,227
Noncurrent liabilities:					
Long-term debt	8,923	52	14	—	8,989
Other liabilities	3,644	2,659	1,756	—	8,059
Total noncurrent liabilities	12,567	2,711	1,770	—	17,048
Total shareholders' equity	13,513	13,483	17,111	(30,594)	13,513
Total liabilities and shareholders' equity	$ 31,051	$ 24,275	$ 24,056	$ (30,594)	$ 48,788

* 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.

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2018	Parent*	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
ASSETS					
Current assets:					
Cash and equivalents	$ 460	$ —	$ 503	$ —	$ 963
Accounts receivable	—	1,171	2,588	—	3,759
Unbilled receivables	—	2,758	3,818	—	6,576
Inventories	—	5,855	122	—	5,977
Other current assets	(251)	647	518	—	914
Total current assets	209	10,431	7,549	—	18,189
Noncurrent assets:					
PP&E	273	7,177	1,522	—	8,972
Accumulated depreciation of PP&E	(83)	(4,071)	(840)	—	(4,994)
Intangible assets, net	—	251	2,334	—	2,585
Goodwill	—	8,031	11,563	—	19,594
Other assets	195	274	593	—	1,062
Net investment in subsidiaries	27,887	—	—	(27,887)	—
Total noncurrent assets	28,272	11,662	15,172	(27,887)	27,219
Total assets	$ 28,481	$ 22,093	$ 22,721	$ (27,887)	$ 45,408
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt and current portion of long-term debt	$ 850	$ —	$ 123	$ —	$ 973
Customer advances and deposits	—	4,541	2,729	—	7,270
Other current liabilities	552	3,944	2,000	—	6,496
Total current liabilities	1,402	8,485	4,852	—	14,739
Noncurrent liabilities:					
Long-term debt	11,398	39	7	—	11,444
Other liabilities	3,949	2,115	1,429	—	7,493
Total noncurrent liabilities	15,347	2,154	1,436	—	18,937
Total shareholders' equity	11,732	11,454	16,433	(27,887)	11,732
Total liabilities and shareholders' equity	$ 28,481	$ 22,093	$ 22,721	$ (27,887)	$ 45,408

* 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.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)

Nine Months Ended September 29, 2019	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Net cash provided by operating activities*	$ 181	$ 679	$ (273)	$ —	$ 587
Cash flows from investing activities:					
Capital expenditures	(65)	(404)	(137)	—	(606)
Other, net	6	21	(25)	—	2
Net cash used by investing activities	(59)	(383)	(162)	—	(604)
Cash flows from financing activities:					
Proceeds from commercial paper, net	947	—	—	—	947
Dividends paid	(858)	—	—	—	(858)
Purchases of common stock	(231)	—	—	—	(231)
Other, net	24	(1)	184	—	207
Net cash provided by financing activities	(118)	(1)	184	—	65
Net cash used by discontinued operations	(37)	—	—	—	(37)
Cash sweep/funding by parent	(15)	(295)	310	—	—
Net increase in cash and equivalents	(48)	—	59	—	11
Cash and equivalents at beginning of period	460	—	503	—	963
Cash and equivalents at end of period	$ 412	$ —	$ 562	$ —	$ 974

Nine Months Ended September 30, 2018	Parent	Guarantors on a Combined Basis	Other Subsidiaries on a Combined Basis	Consolidating Adjustments	Total Consolidated
Net cash provided by operating activities*	$ (204)	$ 1,561	$ (276)	$ —	$ 1,081
Cash flows from investing activities:					
Business acquisitions, net of cash acquired	(9,749)	(74)	(216)	—	(10,039)
Capital expenditures	(36)	(331)	(80)	—	(447)
Other, net	93	76	—	—	169
Net cash used by investing activities	(9,692)	(329)	(296)	—	(10,317)
Cash flows from financing activities:					
Proceeds from fixed-rate notes	6,461	—	—	—	6,461
Proceeds from commercial paper, net	1,668	—	—	—	1,668
Proceeds from floating-rate notes	1,000	—	—	—	1,000
Dividends paid	(801)	—	—	—	(801)
Purchases of common stock	(533)	—	—	—	(533)
Repayment of CSRA accounts receivable purchase agreement	—	—	(450)	—	(450)
Other, net	(10)	—	(58)	—	(68)
Net cash provided by financing activities	7,785	—	(508)	—	7,277
Net cash used by discontinued operations	(14)	—	—	—	(14)
Cash sweep/funding by parent	844	(1,232)	388	—	—
Net decrease in cash and equivalents	(1,281)	—	(692)	—	(1,973)
Cash and equivalents at beginning of period	1,930	—	1,053	—	2,983
Cash and equivalents at end of period	$ 649	$ —	$ 361	$ —	$ 1,010

* Continuing operations only.

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. The following discussion should be read in conjunction with our 2018 Annual Report on Form 10-K and with the unaudited Consolidated Financial Statements included in this Form 10-Q.

DEFENSE BUSINESS ENVIRONMENT

With approximately 65% of our revenue from the U.S. government, government spending levels, particularly defense spending, influence our financial performance. At the start of the government's new fiscal year (FY) that began on October 1, 2019, the Congress had not passed the FY 2020 defense appropriations bill. On September 27, 2019, a continuing resolution (CR) was signed into law, providing funding for federal agencies at FY 2019 spending levels through November 21, 2019. When the government operates under a CR, newly awarded programs are not funded, which could result in program delays. We do not anticipate that the current CR, or 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.

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. Additional factors affecting the segment's earnings and margin include the volume, mix and profitability of completions and services work performed, the volume of and 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 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).

CONSOLIDATED OVERVIEW

Three Months Ended	September 29, 2019	September 30, 2018	Variance	
Revenue	$ 9,761	$ 9,094	$ 667	7.3%
Operating costs and expenses	(8,545)	(7,959)	(586)	7.4%
Operating earnings	1,216	1,135	81	7.1%
Operating margin	12.5%	12.5%		
Nine Months Ended	**September 29, 2019**	**September 30, 2018**	**Variance**	
Revenue	$ 28,577	$ 25,815	$ 2,762	10.7%
Operating costs and expenses	(25,257)	(22,584)	(2,673)	11.8%
Operating earnings	3,320	3,231	89	2.8%
Operating margin	11.6%	12.5%		

Our consolidated revenue increased in the third quarter and first nine months of 2019 driven by additional aircraft deliveries in our Aerospace segment, higher volume from U.S. military vehicles in our Combat Systems segment and increased U.S. Navy ship construction in our Marine Systems segment. In the first nine months of 2019, the increase in revenue was also driven by the acquisition of CSRA Inc. (CSRA) in our Information Technology segment, which we acquired on April 3, 2018. See Note B to the unaudited Consolidated Financial Statements in Part I, Item 1, for further discussion of the acquisition.

Operating margin remained steady in the third quarter of 2019 but declined 90 basis points in the first nine months of 2019. Both periods were impacted by a less favorable aircraft delivery mix in our Aerospace segment and a less favorable contract mix in our Combat Systems segment. The unfavorable impacts of these items were fully offset in the third quarter as a result of ongoing operational performance improvements and cost containment activities across the company.

REVIEW OF OPERATING SEGMENTS

Following is a discussion of operating results and outlook 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 P to the unaudited Consolidated Financial Statements in Part I, Item 1.

AEROSPACE

Three Months Ended	September 29, 2019	September 30, 2018	Variance	
Revenue	$ 2,495	$ 2,031	$ 464	22.8 %
Operating earnings	393	376	17	4.5 %
Operating margin	15.8%	18.5%		
Gulfstream aircraft deliveries (in units)	38	27	11	40.7 %
Nine Months Ended	**September 29, 2019**	**September 30, 2018**	**Variance**	
Revenue	$ 6,871	$ 5,751	$ 1,120	19.5 %
Operating earnings	1,052	1,108	(56)	(5.1)%
Operating margin	15.3%	19.3%		
Gulfstream aircraft deliveries (in units)	103	79	24	30.4 %

Operating Results

The increase in the Aerospace segment's revenue in the third quarter and first nine months of 2019 consisted of the following:

	Third Quarter	Nine Months
Aircraft manufacturing and completions	$ 444	$ 1,004
Aircraft services	(2)	60
Pre-owned aircraft	22	56
Total increase	$ 464	$ 1,120

Aircraft manufacturing and completions revenue increased due primarily to the initial deliveries of the new large-cabin G600 aircraft, which entered into service in the third quarter of 2019, and additional deliveries of the large-cabin G500 aircraft, which entered into service in the third quarter of 2018. We expect deliveries of both of these aircraft to continue to ramp up in the fourth quarter.

In the first nine months of 2019, the increase in aircraft services revenue was driven by higher demand for maintenance work and the acquisition in the second quarter of 2018 of Hawker Pacific, a leading provider of integrated aviation solutions across the Asia-Pacific region and the Middle East.

The components of the change in the segment's operating earnings in the third quarter and first nine months of 2019 are presented below. Operating earnings were up in the quarter over the third quarter of 2018, which is particularly notable in light of a significant favorable supplier settlement in the third quarter of 2018 that was the primary driver of the decrease in operating earnings in the first nine months of 2019.

	Third Quarter	Nine Months
Aircraft manufacturing and completions	$ (4)	$ (40)
Aircraft services	10	3
Pre-owned aircraft	—	(7)
G&A/other expenses	11	(12)
Total increase (decrease)	$ 17	$ (56)

In addition to the supplier settlement, aircraft manufacturing and completions operating earnings were impacted by the shift in the mix of Gulfstream aircraft deliveries as the G600 was introduced and G500 production increased, bringing the typical lower margin associated with initial units of a new aircraft model. The shift in the mix was offset by the operating earnings generated from additional deliveries in the current-year periods.

Net G&A/other expenses were higher in the first nine months of 2019 compared with the prior-year period as a result of the receipt in the second quarter of 2018 of milestone payments from suppliers under our cost sharing arrangements on aircraft development programs. Overall, R&D expenses have been trending downward with the completion of the G500 and G600 aircraft test programs, resulting in lower G&A/other expenses in the third quarter of 2019. In total, the Aerospace segment's operating margin decreased 270 basis points in the third quarter and 400 basis points in the first nine months of 2019 compared with the prior-year periods.

COMBAT SYSTEMS

Three Months Ended	September 29, 2019	September 30, 2018	Variance	
Revenue	$ 1,740	$ 1,523	$ 217	14.2%
Operating earnings	264	241	23	9.5%
Operating margin	15.2%	15.8%		
Nine Months Ended	**September 29, 2019**	**September 30, 2018**	**Variance**	
Revenue	$ 5,035	$ 4,497	$ 538	12.0%
Operating earnings	712	701	11	1.6%
Operating margin	14.1%	15.6%		

Operating Results

The increase in the Combat Systems segment's revenue in the third quarter and first nine months of 2019 consisted of the following:

	Third Quarter	Nine Months
U.S. military vehicles	$ 140	$ 398
Weapons systems and munitions	82	183
International military vehicles	(5)	(43)
Total increase	$ 217	$ 538

Revenue from U.S. military vehicles increased due primarily to higher volume on the U.S. Army's Abrams M1A2 System Enhancement Package Version 3 (SEPv3) tank and new Mobile Protected Firepower (MPF) vehicle programs. Weapons systems and munitions revenue was up due to increased volume on several products, including artillery for the Army and missile subcomponents. Revenue from international military vehicles decreased due to lower volume on various wheeled armored vehicle programs and reduced volume on the British Army's AJAX armored fighting vehicle program as it transitions from engineering to production.

The Combat Systems segment's operating margin decreased 60 basis points in the third quarter and 150 basis points in the first nine months of 2019 driven by contract mix in our U.S. military vehicles business and an unfavorable settlement in the first quarter of 2019 relating to a lease at a former operating site outside the United States.

INFORMATION TECHNOLOGY

Three Months Ended	September 29, 2019	September 30, 2018	Variance	
Revenue	$ 2,071	$ 2,307	$ (236)	(10.2)%
Operating earnings	146	157	(11)	(7.0)%
Operating margin	7.0%	6.8%		
Nine Months Ended	**September 29, 2019**	**September 30, 2018**	**Variance**	
Revenue	$ 6,398	$ 5,887	$ 511	8.7 %
Operating earnings	456	414	42	10.1 %
Operating margin	7.1%	7.0%		

Operating Results

The change in the Information Technology segment's revenue in the third quarter and first nine months of 2019 consisted of the following:

	Third Quarter	Nine Months
Defense	$ (19)	$ 354
Intelligence and homeland security	(85)	110
Federal civilian	(132)	47
Total (decrease) increase	$ (236)	$ 511

In the first nine months of 2019, revenue increased across all three businesses due to the CSRA acquisition in the second quarter of 2018. Federal civilian revenue in the third quarter and first nine months of 2019 were lower because of the sale of the segment's public-facing contact-center business in the fourth quarter of 2018 and other portfolio shaping following the acquisition. Revenue also decreased in the third quarter of 2019 driven by the completion of several legacy CSRA programs in 2018, offset partially by the ramp up of new programs.

The Information Technology segment's operating margin was up 20 basis points in the third quarter of 2019 compared with the prior-year period due to lower intangible asset amortization expense from the CSRA acquisition, offset somewhat by a charge recorded as we exited a non-core line of business. Operating margin increased 10 basis points in the first nine months of 2019 compared with the prior-year period due to favorable program mix and acquisition-related synergies offsetting additional intangible asset amortization expense.

MISSION SYSTEMS

Three Months Ended	September 29, 2019	September 30, 2018	Variance	
Revenue	$ 1,220	$ 1,230	$ (10)	(0.8)%
Operating earnings	185	179	6	3.4 %
Operating margin	15.2%	14.6%		
Nine Months Ended	**September 29, 2019**	**September 30, 2018**	**Variance**	
Revenue	$ 3,655	$ 3,475	$ 180	5.2 %
Operating earnings	495	478	17	3.6 %
Operating margin	13.5%	13.8%		

Operating Results

The change in the Mission Systems segment's revenue in the third quarter and first nine months of 2019 consisted of the following:

	Third Quarter	Nine Months
Naval, air and electronic systems	$ 7	$ 92
Ground systems and products	(19)	64
Space, intelligence and cyber systems	2	24
Total (decrease) increase	$ (10)	$ 180

Revenue in the Mission Systems segment was down slightly in the third quarter but up in the first nine months of 2019 compared with the prior-year periods. Increased volume on combat and seaframe control systems for the U.S. Navy's Independence-variant Littoral Combat Ships and fire-control systems for the Navy's submarine programs drove the increase in the naval, air and electronic systems business. Ground systems and products revenue was up in the first nine months of 2019 due primarily to higher demand for computing and communications equipment.

The Mission Systems segment's operating margin increased 60 basis points in the third quarter and decreased 30 basis points in the first nine months of 2019 compared with prior-year periods due to program mix.

MARINE SYSTEMS

Three Months Ended	September 29, 2019	September 30, 2018	Variance	
Revenue	$ 2,235	$ 2,003	$ 232	11.6%
Operating earnings	209	169	40	23.7%
Operating margin	9.4%	8.4%		
Nine Months Ended	**September 29, 2019**	**September 30, 2018**	**Variance**	
Revenue	$ 6,618	$ 6,205	$ 413	6.7%
Operating earnings	586	548	38	6.9%
Operating margin	8.9%	8.8%		

Operating Results

The increase in the Marine Systems segment's revenue in the third quarter and first nine months of 2019 consisted of the following:

	Third Quarter	Nine Months
U.S. Navy ship construction	$ 175	$ 460
U.S. Navy ship engineering, repair and other services	97	70
Commercial ship construction	(40)	(117)
Total increase	$ 232	$ 413

Revenue from U.S. Navy ship construction was up due to higher volume on Block V of the Virginia-class submarine program, the Columbia-class submarine program and the John Lewis-class (T-AO-205) fleet replenishment oiler contract. Revenue from U.S. Navy ship engineering, repair and other services increased driven by a higher volume of surface ship repair work. These increases were offset partially by lower commercial ship construction volume.

The Marine Systems segment's operating margin increased 100 basis points in the third quarter of 2019 and 10 basis points in the first nine months of 2019 compared with the prior-year periods driven by favorable performance on the end of Block III of the Virginia-class submarine program. In the first nine months of 2019, this favorable performance offset the impact of mix shift, particularly in our submarine and auxiliary ship workloads, that the segment has been experiencing in 2019.

CORPORATE

Corporate operating results consisted of the following:

	Three Months Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Operating income (expense)	$ 19	$ 13	$ 19	$ (18)

Corporate operating results in the first nine months of 2018 included one-time transaction-related charges of approximately $45 associated with the costs to complete the CSRA acquisition. Excluding these charges, Corporate operating results have two primary components: pension and other post-retirement benefit income, and stock option 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.

Based on recent market conditions, we adjusted our assumptions for our non-qualified supplemental retirement plans, and the third quarter of 2019 reflects a cumulative adjustment to recognize the resulting increase in expense. In our defense segments, this results in an increase in the offset reported in Corporate, as described above. Due to the revised assumptions, we expect minimal income/expense for Corporate in the fourth quarter.

OTHER INFORMATION

PRODUCT REVENUE AND OPERATING COSTS

Three Months Ended	September 29, 2019	September 30, 2018	Variance	
Revenue	$ 5,789	$ 4,842	$ 947	19.6%
Operating costs	(4,640)	(3,797)	(843)	22.2%
Nine Months Ended	**September 29, 2019**	**September 30, 2018**	**Variance**	
Revenue	$ 16,441	$ 14,172	$ 2,269	16.0%
Operating costs	(13,217)	(11,045)	(2,172)	19.7%

The increase in product revenue in the third quarter and first nine months of 2019 consisted of the following:

	Third Quarter	Nine Months
Aircraft manufacturing and completions	$ 444	$ 1,004
Ship construction	130	340
C4ISR products	97	327
Military vehicle production	123	300
Other, net	153	298
Total increase	$ 947	$ 2,269

Aircraft manufacturing and completions revenue increased due primarily to the initial deliveries of the new large-cabin G600 aircraft and additional deliveries of the large-cabin G500 aircraft. Ship construction revenue increased due to higher volume on Block V of the Virginia-class submarine program, the Columbia-class submarine program and the John Lewis-class fleet replenishment oiler contract, offset partially by lower commercial ship construction volume. C4ISR products revenue was up due to higher demand for computing and communications equipment and increased volume on combat and seaframe control systems. Military vehicle production revenue was up due to higher volume on the U.S. Army's Abrams tank and new MPF programs. Product operating costs increased at a higher rate than revenue due primarily to the shift in mix of Gulfstream aircraft deliveries.

SERVICE REVENUE AND OPERATING COSTS

Three Months Ended	September 29, 2019		September 30, 2018		Variance	
Revenue	$	3,972	$	4,252	$ (280)	(6.6)%
Operating costs		(3,333)		(3,610)	277	(7.7)%
Nine Months Ended	**September 29, 2019**		**September 30, 2018**		**Variance**	
Revenue	$	12,136	$	11,643	$ 493	4.2 %
Operating costs		(10,258)		(9,838)	(420)	4.3 %

The change in service revenue in the third quarter and first nine months of 2019 consisted of the following:

		Third Quarter		Nine Months
IT services	$	(236)	$	511
Other, net		(44)		(18)
Total (decrease) increase	$	(280)	$	493

In the first nine months of 2019, IT services revenue increased due to the CSRA acquisition in the second quarter of 2018. IT services revenue decreased in the third quarter of 2019 due primarily to the sale of a public-facing contact-center business in the fourth quarter of 2018. In the third quarter of 2019, service operating costs decreased at a higher rate than revenue due primarily to lower intangible asset amortization expense from the CSRA acquisition.

OTHER FINANCIAL INFORMATION

G&A Expenses

As a percentage of revenue, G&A expenses were 6.2% in the first nine months of 2019 compared with 6.6% in the first nine months of 2018.

Interest, Net

Net interest expense was $350 in the first nine months of 2019 compared with $244 in the prior-year period. The increase was due primarily to the impact of financing the CSRA acquisition, including the issuance of $7.5 billion of fixed- and floating-rate notes in the second quarter of 2018. 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 $18 in the first nine months of 2019 compared with expense of $34 in the first nine months of 2018. These amounts represent primarily the non-service cost components of pension and other post-retirement benefits, which became a net income item in the first nine months of 2019 versus a net expense in the prior-year period. The first nine months of 2018 also included approximately $30 of transaction costs associated with the CSRA acquisition.

Based on recent market conditions, we adjusted our assumptions for our non-qualified supplemental retirement plans, and the third quarter of 2019 reflects a cumulative adjustment to recognize the resulting increase in expense. Due to the revised assumptions, we expect minimal other income/expense in the fourth quarter.

Provision for Income Tax, Net

Our effective tax rate was 17.5% in the first nine months of 2019 compared with 17.1% in the prior-year period. For 2019, we anticipate a full-year effective tax rate in the mid-17% range.

Discontinued Operations, Net of Tax

Concurrent with the acquisition of CSRA, we were required by a government customer to dispose of certain CSRA operations to address an organizational conflict of interest with respect to services provided to the customer. In the third quarter of 2018, we sold these operations. In accordance with U.S. generally accepted accounting principles (GAAP), the sale did not result in a gain for financial reporting purposes. However, the sale generated a taxable gain, resulting in tax expense of $13.

BACKLOG AND ESTIMATED POTENTIAL CONTRACT VALUE

Our total backlog, including funded and unfunded portions, was $67.4 billion at the end of the third quarter of 2019, down slightly from $67.7 billion on June 30, 2019. 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 $103 billion on September 29, 2019, up 1.1% from $101.9 billion on June 30, 2019.

The following table details the backlog and estimated potential contract value of each segment at the end of the third and second quarters of 2019:

	Funded	Unfunded	Total Backlog	Estimated Potential Contract Value	Total Estimated Contract Value
			September 29, 2019		
Aerospace	$ 11,195	$ 188	$ 11,383	$ 2,065	$ 13,448
Combat Systems	15,069	449	15,518	4,255	19,773
Information Technology	4,782	4,381	9,163	18,063	27,226
Mission Systems	5,152	307	5,459	6,764	12,223
Marine Systems	17,801	8,072	25,873	4,497	30,370
Total	$ 53,999	$ 13,397	$ 67,396	$ 35,644	$ 103,040
			June 30, 2019		
Aerospace	$ 11,932	$ 213	$ 12,145	$ 2,079	$ 14,224
Combat Systems	14,794	438	15,232	4,113	19,345
Information Technology	4,446	4,405	8,851	17,983	26,834
Mission Systems	4,925	258	5,183	6,847	12,030
Marine Systems	18,344	7,899	26,243	3,223	29,466
Total	$ 54,441	$ 13,213	$ 67,654	$ 34,245	$ 101,899

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 2019 with backlog of $11.4 billion compared with $12.1 billion on June 30, 2019.

Orders in the third quarter of 2019 reflected demand across our product and services portfolio including orders for all models of Gulfstream aircraft. The segment's book-to-bill ratio (orders divided by revenue) was 0.7-to-1 in the third quarter of 2019 and approximately 1-to-1 over the trailing 12 months. We received both type and production certification from the U.S. Federal Aviation Administration (FAA) for the G600 aircraft in June 2019 and delivered the first G600 aircraft in the third quarter of 2019.

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 29, 2019, estimated potential contract value in the Aerospace segment was $2.1 billion, consistent with June 30, 2019.

On October 21, 2019, we introduced the new G700 aircraft, combining our industry-leading high-speed, ultra-long-range, ultra-long-cabin G650ER aircraft with an expanded cabin, a new high-thrust, high-efficiency engine to optimize performance and our Symmetry Flight Deck – the industry's most technologically advanced flight deck, which we launched on our new G500 and G600 aircraft. The G700 is expected to enter into service in 2022, following type certification from the FAA and European Aviation Safety Agency. Although the G700 was only recently announced, demand for the next generation aircraft has been solid, and our September 29, 2019, backlog already includes orders associated with the new model.

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 this 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 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 work awarded on unfunded indefinite delivery, indefinite quantity (IDIQ) contracts. Contract options in our defense business 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 $56 billion on September 29, 2019, compared with $55.5 billion on June 30, 2019. The Combat Systems, Information Technology and Mission Systems segments each achieved a book-to-bill ratio in excess of 1-to-1 in the third quarter of 2019. Estimated potential contract value in our defense segments was $33.6 billion on September 29, 2019, up 4.4% from $32.2 billion on June 30, 2019. We received the following significant contract awards during the third quarter of 2019:

Combat Systems:

- $1.3 billion from the Canadian government to produce armored combat support vehicles (ACSVs) and provide associated support services.
- $155 from the U.S. Army for various munitions and ordnance.
- $70 to produce gun systems for the F-35 Joint Strike Fighter.
- $55 from the Army for various maintenance and enhancements at the Lima Army Tank Plant in Lima, Ohio.

Information Technology:

- An IDIQ contract to provide C4ISR installation services for the U.S. Navy. The program has a maximum potential value of $2.5 billion among 6 awardees.
- A contract to provide program management and engineering services to the Cybersecurity and Infrastructure Security Agency's (CISA) emergency communications infrastructure. The contract has a maximum potential value of $325.
- A contract from the U.S. Department of Veterans Affairs under the Veterans Intake, Conversion and Communications Services (VICCS) program to provide support and communication services to U.S. veterans. The contract has a maximum potential value of $280.
- $155 from the U.S. Department of State to provide business process support services for the Bureau of Consular Affairs' Global Support Strategy (GSS) program for visa services.
- $125 to provide design, development, testing, installation, maintenance, logistics support and modernization services for Navy airborne and shipboard platforms.
- $95 from the Centers for Medicare and Medicaid Services for several key contracts, including support of the Medicare Secondary Payer (MSP) program. These contracts have a maximum potential value of $220.

Mission Systems:

- $265 from the Army for computing and communications equipment under the Common Hardware Systems-5 (CHS-5) program.
- $95 from the Army to provide continued software support and engineering for the Warfighter Information Network-Tactical (WIN-T) Increment 2 program.
- $65 from the Navy to provide fire control system modifications for ballistic-missile and guided-missile submarines.
- $45 from the Navy to produce five Knifefish surface mine countermeasure systems and associated support equipment.
- $25 from the Army for the production of Prophet enhanced ground-based signals intelligence and electronic warfare systems. The contract has a maximum potential value of $295.

Marine Systems:

- $1.1 billion from the Navy for design and construction of two Expeditionary Sea Base (ESB) auxiliary support ships and an option totaling approximately $550 for an additional ship.

- $175 from the Navy to provide engineering, technical, design and planning yard support services for operational strategic and attack submarines. The program has a maximum potential value of $1 billion.
- $390 from the Navy for Advanced Nuclear Plant Studies (ANPS) in support of the Columbia-class submarine program.
- $110 from the Navy to provide maintenance and repair services for the USS Kearsarge, an amphibious assault ship.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We ended the third quarter of 2019 with a cash balance of $974 compared with $963 at the end of 2018. Our net debt position, defined as debt less cash and equivalents and marketable securities, was $12.7 billion at the end of the third quarter of 2019 compared with $11.5 billion at the end of 2018.

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 2019 and 2018, as classified on the unaudited Consolidated Statement of Cash Flows in Part I, Item 1.

OPERATING ACTIVITIES

We generated cash from operating activities of $587 in the first nine months of 2019 compared with $1.1 billion in the same period in 2018. 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), particularly the timing of payments on international armored vehicle contracts in our Combat Systems segment. For additional information about the growth in our unbilled receivables balance, see Note G to the unaudited Consolidated Financial Statements in Part I, Item 1. Cash flows in the first nine months of 2019 were also affected negatively by net OWC growth in our Aerospace segment driven by our position in the development, production and cash collection cycles of our Gulfstream aircraft models. Additionally, cash flows in the first nine months of 2018 reflected a discretionary pension plan contribution of $255.

INVESTING ACTIVITIES

Cash used for investing activities was $604 in the first nine months of 2019 compared with $10.3 billion in the same period in 2018. Our investing activities include cash paid for capital expenditures and business acquisitions; purchases, sales and maturities of marketable securities; and proceeds from asset sales. In the first nine months of 2018, we acquired three businesses for an aggregate of $10 billion, including $9.7 billion for CSRA. Capital expenditures were $606 in the first nine months of 2019 compared with $447 in the same period in 2018. The increase reflects ongoing investments to support growth at our shipyards.

FINANCING ACTIVITIES

Cash provided by financing activities was $65 in the first nine months of 2019 compared with $7.3 billion in the same period in 2018. Net cash from financing activities includes proceeds received from debt and commercial paper issuances and payment of dividends. Our financing activities also include repurchases of common stock, debt repayments and employee stock option exercises.

On December 5, 2018, 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 2019, we repurchased 1.1 million of our outstanding shares for $184. On September 29, 2019, 6.4 million shares remained authorized by our board of directors for repurchase, approximately 2% of our total shares outstanding. We repurchased 2.5 million shares for $522 in the first nine months of 2018.

On March 6, 2019, our board of directors declared an increased quarterly dividend of $1.02 per share, the 22nd consecutive annual increase. Previously, the board had increased the quarterly dividend to $0.93 per share in March 2018. Cash dividends paid were $858 in the first nine months of 2019 compared with $801 in the same period in 2018.

We received net proceeds of $947 from commercial paper in the first nine months of 2019, resulting in $1.8 billion outstanding on September 29, 2019. We have $5 billion in committed bank credit facilities to support our commercial paper issuances and for general corporate purposes and working capital needs. We also have an effective shelf registration on file with the Securities and Exchange Commission that allows us to access the debt markets.

In the first nine months of 2018, we issued $7.5 billion of fixed- and floating-rate notes to finance the acquisition of CSRA. Additionally, in the first nine months of 2018, we paid $450 to satisfy obligations under CSRA's accounts receivable purchase agreement.

Fixed- and floating-rate notes totaling $2.5 billion mature in May 2020. As we approach the maturity date 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 I, Item 1.

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 29, 2019		September 30, 2018
Net cash provided by operating activities	$	587	$	1,081
Capital expenditures		(606)		(447)
Free cash flow from operations	$	(19)	$	634
Cash flows as a percentage of earnings from continuing operations:				
Net cash provided by operating activities		24 %		44%
Free cash flow from operations		(1)%		26%

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 U.S. 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. 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 $81 ($0.22) and $220 ($0.60) for the three- and nine-month periods ended September 29, 2019, and $103 ($0.27) and $283 ($0.75) for the three- and nine-month periods ended September 30, 2018, respectively. No adjustment on any one contract was material to the unaudited Consolidated Financial Statements for the three- and nine-month periods ended September 29, 2019, or September 30, 2018.

Leases. Effective January 1, 2019, we adopted ASC Topic 842, Leases. ASC Topic 842 requires the recognition of lease rights and obligations as assets and liabilities on the balance sheet. Previously, lessees were not required to recognize on the balance sheet assets and liabilities arising from operating leases. As we elected the cumulative-effect adoption method, prior-period information has not been restated. The most significant effects of the standard on our Consolidated Financial Statements are (1) the recognition of new right-of-use assets and lease liabilities on our Consolidated Balance Sheet associated with our operating leases, and (2) significant new disclosures about our leasing activities (see Note N to the unaudited Consolidated Financial Statements in Part I, Item1). On January 1, 2019, we recognized operating lease liabilities and right-of-use assets of $1.4 billion based on the present value of the remaining lease payments over the lease term. The adoption did not result in a cumulative-effect adjustment to retained earnings. The new standard did not have a material impact on our results of operations or cash flows.

CSRA Acquisition. We are required to estimate the fair value of the assets acquired and liabilities assumed in business combinations on the acquisition date, including identified intangible assets. The amount of purchase price paid in excess of the net assets acquired is recorded as goodwill. The fair values are estimated in accordance with the principles of ASC Topic 820, Fair Value Measurement, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair values of the net assets acquired are determined primarily using Level 3 inputs (inputs that are unobservable to the market place participant).

The most significant of the fair value estimates is related to long-lived assets, specifically intangible assets subject to amortization. We have valued $2.1 billion of acquired intangible assets in connection with the CSRA acquisition. This amount was determined based primarily on CSRA's projected cash flows. The projected cash flows include various assumptions, including the timing of work embedded in backlog, success in securing future business, profitability of work, and the appropriate risk-adjusted interest rate used to discount the projected cash flows.

Other. Other significant estimates include those related to goodwill and intangible assets, 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, 2018. 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.

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, 2018.

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 29, 2019. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, on September 29, 2019, 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 29, 2019, 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 Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018. These factors include:

- general U.S. and international political and economic conditions;
- 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

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, 2018.

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
*Shares Delivered or Withheld Pursuant to Restricted Stock Vesting**		
7/1/19-7/28/19	1,148	$ 167.16
7/29/19-8/25/19	398	184.07
8/26/19-9/29/19	36	184.36
	1,582	$ 171.81

* 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 December 5, 2018, 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 2019. On September 29, 2019, 6.4 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 2019.

ITEM 6. EXHIBITS

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

William A. Moss
Vice President and Controller
(Authorized Officer and Chief Accounting Officer)

Dated: October 23, 2019