

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 October 2, 2022

OR

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

For the transition period from _____ to _____

Commission File Number 1-3671

GENERAL DYNAMICS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

State or other jurisdiction of incorporation or organization

13-1673581

I.R.S. Employer Identification No.

11011 Sunset Hills Road Reston, Virginia

Address of principal executive offices

20190

Zip code

(703) 876-3000

Registrant's telephone number, including area code

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

Smaller reporting company ☐ Emerging growth company ☐

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

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

274,548,961 shares of the registrant's common stock, \$1 par value per share, were outstanding on October 2, 2022.

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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	
	October 2, 2022	October 3, 2021
Revenue:		
Products	\$ 5,935	\$ 5,518
Services	4,040	4,050
	9,975	9,568
Operating costs and expenses:		
Products	(4,905)	(4,552)
Services	(3,405)	(3,386)
General and administrative (G&A)	(567)	(550)
	(8,877)	(8,488)
Operating earnings	1,098	1,080
Other, net	41	34
Interest, net	(86)	(99)
Earnings before income tax	1,053	1,015
Provision for income tax, net	(151)	(155)
Net earnings	\$ 902	\$ 860
Earnings per share		
Basic	\$ 3.29	\$ 3.09
Diluted	\$ 3.26	\$ 3.07

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

CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)

(Dollars in millions, except per-share amounts)	Nine Months Ended	
	October 2, 2022	October 3, 2021
Revenue:		
Products	\$ 16,201	\$ 16,033
Services	12,355	12,144
	28,556	28,177
Operating costs and expenses:		
Products	(13,386)	(13,249)
Services	(10,379)	(10,286)
G&A	(1,807)	(1,665)
	(25,572)	(25,200)
Operating earnings	2,984	2,977
Other, net	120	95
Interest, net	(279)	(331)
Earnings before income tax	2,825	2,741
Provision for income tax, net	(427)	(436)
Net earnings	\$ 2,398	\$ 2,305
Earnings per share		
Basic	\$ 8.70	\$ 8.20
Diluted	\$ 8.61	\$ 8.16

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	October 2, 2022	October 3, 2021	October 2, 2022	October 3, 2021
Net earnings	\$ 902	\$ 860	\$ 2,398	\$ 2,305
Changes in unrealized cash flow hedges	(67)	(48)	(223)	(134)
Foreign currency translation adjustments	(311)	(107)	(500)	(77)
Changes in retirement plans' funded status	45	88	134	260
Other comprehensive (loss) income, pretax	(333)	(67)	(589)	49
Benefit (provision) for income tax, net	8	(7)	31	(20)
Other comprehensive (loss) income, net of tax	(325)	(74)	(558)	29
Comprehensive income	\$ 577	\$ 786	\$ 1,840	\$ 2,334

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

CONSOLIDATED BALANCE SHEET

(Dollars in millions)	(Unaudited)	
	October 2, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,496	\$ 1,603
Accounts receivable	2,794	3,041
Unbilled receivables	8,111	8,498
Inventories	6,257	5,340
Other current assets	1,347	1,505
Total current assets	21,005	19,987
Noncurrent assets:		
Property, plant and equipment, net	5,565	5,417
Intangible assets, net	1,921	1,978
Goodwill	20,155	20,098
Other assets	2,470	2,593
Total noncurrent assets	30,111	30,086
Total assets	\$ 51,116	\$ 50,073
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 2,252	\$ 1,005
Accounts payable	3,106	3,167
Customer advances and deposits	6,661	6,266
Other current liabilities	3,640	3,540
Total current liabilities	15,659	13,978
Noncurrent liabilities:		
Long-term debt	9,239	10,490
Other liabilities	8,567	7,964
Commitments and contingencies (see Note J)		
Total noncurrent liabilities	17,806	18,454
Shareholders' equity:		
Common stock	482	482
Surplus	3,511	3,278
Retained earnings	36,774	35,420
Treasury stock	(20,638)	(19,619)
Accumulated other comprehensive loss	(2,478)	(1,920)
Total shareholders' equity	17,651	17,641
Total liabilities and shareholders' equity	\$ 51,116	\$ 50,073

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

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Nine Months Ended	
	October 2, 2022	October 3, 2021
Cash flows from operating activities - continuing operations:		
Net earnings	\$ 2,398	\$ 2,305
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation of property, plant and equipment	420	408
Amortization of intangible and finance lease right-of-use assets	224	242
Equity-based compensation expense	140	96
Deferred income tax benefit	(132)	(38)
(Increase) decrease in assets, net of effects of business acquisitions:		
Accounts receivable	259	133
Unbilled receivables	422	(252)
Inventories	(915)	94
Increase (decrease) in liabilities, net of effects of business acquisitions:		
Accounts payable	(68)	(291)
Customer advances and deposits	1,598	228
Other liabilities	(309)	(455)
Other, net	(127)	119
Net cash provided by operating activities	3,910	2,589
Cash flows from investing activities:		
Capital expenditures	(620)	(502)
Other, net	(378)	1
Net cash used by investing activities	(998)	(501)
Cash flows from financing activities:		
Purchases of common stock	(1,119)	(1,491)
Dividends paid	(1,024)	(983)
Repayment of fixed-rate notes	—	(2,500)
Proceeds from commercial paper, gross (maturities greater than 3 months)	—	1,997
Proceeds from fixed-rate notes	—	1,497
Repayment of floating-rate notes	—	(500)
Other, net	103	223
Net cash used by financing activities	(2,040)	(1,757)
Net cash provided (used) by discontinued operations	21	(16)
Net increase in cash and equivalents	893	315
Cash and equivalents at beginning of period	1,603	2,824
Cash and equivalents at end of period	\$ 2,496	\$ 3,139
Supplemental cash flow information:		
Income tax payments, net	\$ (767)	\$ (502)
Interest payments	\$ (206)	\$ (329)

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Dollars in millions)	Three Months Ended					
	Common Stock		Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Par	Surplus				
July 3, 2022	\$ 482	\$ 3,466	\$ 36,218	\$ (20,632)	\$ (2,153)	\$ 17,381
Net earnings	—	—	902	—	—	902
Cash dividends declared	—	—	(346)	—	—	(346)
Equity-based awards	—	45	—	(6)	—	39
Other comprehensive loss	—	—	—	—	(325)	(325)
October 2, 2022	\$ 482	\$ 3,511	\$ 36,774	\$ (20,638)	\$ (2,478)	\$ 17,651
July 4, 2021	\$ 482	\$ 3,194	\$ 34,273	\$ (19,181)	\$ (3,447)	\$ 15,321
Net earnings	—	—	860	—	—	860
Cash dividends declared	—	—	(333)	—	—	(333)
Equity-based awards	—	42	—	22	—	64
Shares purchased	—	—	—	(117)	—	(117)
Other comprehensive loss	—	—	—	—	(74)	(74)
October 3, 2021	\$ 482	\$ 3,236	\$ 34,800	\$ (19,276)	\$ (3,521)	\$ 15,721
(Dollars in millions)	Nine Months Ended					
	Common Stock		Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Par	Surplus				
December 31, 2021	\$ 482	\$ 3,278	\$ 35,420	\$ (19,619)	\$ (1,920)	\$ 17,641
Net earnings	—	—	2,398	—	—	2,398
Cash dividends declared	—	—	(1,044)	—	—	(1,044)
Equity-based awards	—	233	—	78	—	311
Shares purchased	—	—	—	(1,097)	—	(1,097)
Other comprehensive loss	—	—	—	—	(558)	(558)
October 2, 2022	\$ 482	\$ 3,511	\$ 36,774	\$ (20,638)	\$ (2,478)	\$ 17,651
December 31, 2020	\$ 482	\$ 3,124	\$ 33,498	\$ (17,893)	\$ (3,550)	\$ 15,661
Net earnings	—	—	2,305	—	—	2,305
Cash dividends declared	—	—	(1,003)	—	—	(1,003)
Equity-based awards	—	112	—	93	—	205
Shares purchased	—	—	—	(1,476)	—	(1,476)
Other comprehensive income	—	—	—	—	29	29
October 3, 2021	\$ 482	\$ 3,236	\$ 34,800	\$ (19,276)	\$ (3,521)	\$ 15,721

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except share and 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; ship construction and repair; land combat vehicles, weapons systems and munitions; and technology products and services.

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.

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 (SEC). 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 October 2, 2022, are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

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 October 2, 2022, and October 3, 2021.

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, 2021.

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

	October 2, 2022	December 31, 2021
PP&E	\$ 11,899	\$ 11,464
Accumulated depreciation	(6,334)	(6,047)
PP&E, net	\$ 5,565	\$ 5,417

Acquisitions and Divestitures. In July 2022, we acquired a provider of mission-critical embedded computing solutions for U.S. Navy platforms in our Technologies segment. The operating results of the acquisition have been included in our reported results since the closing date. The purchase price of the

acquisition has been preliminarily allocated to the estimated fair value of net tangible and intangible assets acquired, with any excess purchase price recorded as goodwill.

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

B. REVENUE

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

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

Our performance obligations are satisfied over time as work progresses or at a point in time. Revenue from products and services transferred to customers over time accounted for 75% and 78% of our revenue for the three- and nine-month periods ended October 2, 2022, and 78% and 79% of our revenue for the three- and nine-month periods ended October 3, 2021, 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 25% and 22% of our revenue for the three- and nine-month periods ended October 2, 2022, and 22% and 21% of our revenue for the three- and nine-month periods ended October 3, 2021, respectively. Most 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 October 2, 2022, we had \$88.8 billion of remaining performance obligations, which we also refer to as total backlog. We expect to recognize approximately 45% of our remaining performance obligations as revenue by year-end 2023, an additional 35% by year-end 2025 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, award fees and incentive fees. We include in our contract estimates additional revenue for 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 fees 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.

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	
	October 2, 2022	October 3, 2021	October 2, 2022	October 3, 2021
Revenue	\$ 67	\$ 148	\$ 286	\$ 308
Operating earnings	115	134	321	273
Diluted earnings per share	\$ 0.33	\$ 0.38	\$ 0.91	\$ 0.76

While no adjustment on any one contract was material to the unaudited Consolidated Financial Statements for the three- and nine-month periods ended October 2, 2022, or October 3, 2021, our Marine Systems segment's 2022 results were negatively affected by supply chain impacts to the Virginia-class submarine schedule, offset partially by improved performance on auxiliary and support ships.

Revenue by Category. Our portfolio of products and services consists of approximately 10,000 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	
	October 2, 2022	October 3, 2021	October 2, 2022	October 3, 2021
Aircraft manufacturing	\$ 1,712	\$ 1,462	\$ 4,086	\$ 3,906
Aircraft services	635	604	2,031	1,669
Total Aerospace	2,347	2,066	6,117	5,575
Nuclear-powered submarines	1,785	1,741	5,257	5,139
Surface ships	701	594	1,905	1,707
Repair and other services	283	302	909	810
Total Marine Systems	2,769	2,637	8,071	7,656
Military vehicles	1,134	1,099	3,313	3,533
Weapons systems, armament and munitions	480	480	1,314	1,451
Engineering and other services	174	166	502	480
Total Combat Systems	1,788	1,745	5,129	5,464
Information technology (IT) services	2,038	2,058	6,188	6,214
C5ISR* solutions	1,033	1,062	3,051	3,268
Total Technologies	3,071	3,120	9,239	9,482
Total revenue	\$ 9,975	\$ 9,568	\$ 28,556	\$ 28,177

* Command, control, communications, computers, cyber, intelligence, surveillance and reconnaissance

Revenue by contract type was as follows:

Three Months Ended October 2, 2022	Aerospace	Marine Systems	Combat Systems	Technologies	Total Revenue
Fixed-price	\$ 2,127	\$ 1,670	\$ 1,575	\$ 1,315	\$ 6,687
Cost-reimbursement	—	1,099	199	1,272	2,570
Time-and-materials	220	—	14	484	718
Total revenue	\$ 2,347	\$ 2,769	\$ 1,788	\$ 3,071	\$ 9,975

Three Months Ended October 3, 2021	Aerospace	Marine Systems	Combat Systems	Technologies	Total Revenue
Fixed-price	\$ 1,847	\$ 1,930	\$ 1,515	\$ 1,349	\$ 6,641
Cost-reimbursement	—	705	216	1,279	2,200
Time-and-materials	219	2	14	492	727
Total revenue	\$ 2,066	\$ 2,637	\$ 1,745	\$ 3,120	\$ 9,568

Nine Months Ended October 2, 2022	Aerospace	Marine Systems	Combat Systems	Technologies	Total Revenue
Fixed-price	\$ 5,414	\$ 4,880	\$ 4,481	\$ 3,939	\$ 18,714
Cost-reimbursement	—	3,191	607	3,856	7,654
Time-and-materials	703	—	41	1,444	2,188
Total revenue	\$ 6,117	\$ 8,071	\$ 5,129	\$ 9,239	\$ 28,556

Nine Months Ended October 3, 2021	Aerospace	Marine Systems	Combat Systems	Technologies	Total Revenue
Fixed-price	\$ 4,996	\$ 5,524	\$ 4,752	\$ 3,993	\$ 19,265
Cost-reimbursement	—	2,130	667	4,005	6,802
Time-and-materials	579	2	45	1,484	2,110
Total revenue	\$ 5,575	\$ 7,656	\$ 5,464	\$ 9,482	\$ 28,177

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. The amount for an incentive or award fee is 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 October 2, 2022	Aerospace	Marine Systems	Combat Systems	Technologies	Total Revenue
U.S. government:					
Department of Defense (DoD)	\$ 61	\$ 2,723	\$ 1,029	\$ 1,716	\$ 5,529
Non-DoD	—	—	2	1,182	1,184
Foreign military sales (FMS)	20	45	82	7	154
Total U.S. government	81	2,768	1,113	2,905	6,867
U.S. commercial	1,418	1	62	56	1,537
Non-U.S. government	123	—	592	95	810
Non-U.S. commercial	725	—	21	15	761
Total revenue	\$ 2,347	\$ 2,769	\$ 1,788	\$ 3,071	\$ 9,975

Three Months Ended October 3, 2021

U.S. government:					
DoD	\$ 73	\$ 2,584	\$ 937	\$ 1,715	\$ 5,309
Non-DoD	—	1	2	1,241	1,244
FMS	23	51	63	7	144
Total U.S. government	96	2,636	1,002	2,963	6,697
U.S. commercial	1,201	—	55	51	1,307
Non-U.S. government	46	1	670	101	818
Non-U.S. commercial	723	—	18	5	746
Total revenue	\$ 2,066	\$ 2,637	\$ 1,745	\$ 3,120	\$ 9,568

Nine Months Ended October 2, 2022	Aerospace	Marine Systems	Combat Systems	Technologies	Total Revenue
U.S. government:					
DoD	\$ 221	\$ 7,948	\$ 2,824	\$ 5,134	\$ 16,127
Non-DoD	—	1	7	3,603	3,611
FMS	102	118	201	23	444
Total U.S. government	323	8,067	3,032	8,760	20,182
U.S. commercial	3,616	2	167	159	3,944
Non-U.S. government	422	2	1,867	290	2,581
Non-U.S. commercial	1,756	—	63	30	1,849
Total revenue	\$ 6,117	\$ 8,071	\$ 5,129	\$ 9,239	\$ 28,556

Nine Months Ended October 3, 2021

U.S. government:					
DoD	\$ 203	\$ 7,496	\$ 2,807	\$ 5,220	\$ 15,726
Non-DoD	—	5	7	3,782	3,794
FMS	60	148	212	27	447
Total U.S. government	263	7,649	3,026	9,029	19,967
U.S. commercial	3,040	2	163	144	3,349
Non-U.S. government	286	3	2,224	294	2,807
Non-U.S. commercial	1,986	2	51	15	2,054
Total revenue	\$ 5,575	\$ 7,656	\$ 5,464	\$ 9,482	\$ 28,177

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 October 2, 2022, were not materially impacted by any other factors.

Revenue recognized for the three- and nine-month periods ended October 2, 2022, and October 3, 2021, that was included in the contract liability balance at the beginning of each year was \$908 and \$3.5 billion, and \$612 and \$3 billion, respectively. This revenue represented primarily the sale of business jet aircraft.

C. 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 2022 and 2021 due to 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	
	October 2, 2022	October 3, 2021	October 2, 2022	October 3, 2021
Basic weighted average shares outstanding	273,916	278,596	275,752	281,147
Dilutive effect of stock options and restricted stock/RSUs*	2,466	1,809	2,615	1,287
Diluted weighted average shares outstanding	276,382	280,405	278,367	282,434

* 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 1,724 and 1,393 for the three- and nine-month periods ended October 2, 2022, and 1,547 and 5,015 for the three- and nine-month periods ended October 3, 2021, respectively.

D. 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:

	October 2, 2022	December 31, 2021
Deferred tax asset	\$ 31	\$ 41
Deferred tax liability	(686)	(868)
Net deferred tax liability	\$ (655)	\$ (827)

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 2021.

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 October 2, 2022, 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.

E. 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:

	October 2, 2022	December 31, 2021
Unbilled revenue	\$ 36,971	\$ 39,566
Advances and progress billings	(28,860)	(31,068)
Net unbilled receivables	\$ 8,111	\$ 8,498

On October 2, 2022, and December 31, 2021, net unbilled receivables included \$2.3 billion and \$3.3 billion, respectively, associated with two large international contracts in our Combat Systems segment. A wheeled vehicle contract, originally negotiated in 2012, was amended in 2020 to include a revised payment schedule that addressed a build-up in unbilled receivables. Under the amended contract, we have received progress payments that have reduced the program's unbilled balance to \$815. The remaining scheduled progress payments will liquidate the net unbilled receivables balance by the end of 2023. A separate tracked vehicle contract signed in 2010 has been experiencing an unbilled receivable build-up due to payment delays since 2021 resulting in a \$1.4 billion balance at the end of the third quarter. We continue to engage with the customer to address concerns on certain aspects of the program.

Based on this engagement and recent program activities, we continue to expect to collect the full amount outstanding.

F. 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:

	October 2, 2022	December 31, 2021
Work in process	\$ 4,257	\$ 3,654
Raw materials	1,906	1,651
Finished goods	20	22
Pre-owned aircraft	74	13
Total inventories	\$ 6,257	\$ 5,340

The increase in total inventories during the nine-month period ended October 2, 2022, was due primarily to the ramp-up in production of new Gulfstream aircraft models announced in the last three years, as well as increased production of in-service aircraft reflecting strong customer demand. Customer deposits associated with firm orders for these aircraft, which are reflected in customer advances and deposits and other noncurrent liabilities on the Consolidated Balance Sheet, have correspondingly increased.

G. GOODWILL AND INTANGIBLE ASSETS

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

	Aerospace	Marine Systems	Combat Systems	Technologies	Total Goodwill
December 31, 2021 (a)	\$ 3,039	\$ 297	\$ 2,827	\$ 13,935	\$ 20,098
Acquisitions	—	—	—	271	271
Other (b)	(104)	—	(83)	(27)	(214)
October 2, 2022 (a)	\$ 2,935	\$ 297	\$ 2,744	\$ 14,179	\$ 20,155

(a) Goodwill in the Technologies reporting unit was net of \$1.8 billion of accumulated impairment losses.

(b) Consisted primarily of adjustments for foreign currency translation.

Intangible Assets. Intangible assets consisted of the following:

	Gross Carrying Amount (a)	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount (a)	Accumulated Amortization	Net Carrying Amount
	October 2, 2022			December 31, 2021		
Contract and program intangible assets (b)	\$ 3,307	\$ (1,642)	\$ 1,665	\$ 3,239	\$ (1,547)	\$ 1,692
Trade names and trademarks	469	(232)	237	501	(238)	263
Technology and software	64	(46)	18	70	(48)	22
Other intangible assets	64	(63)	1	64	(63)	1
Total intangible assets	\$ 3,904	\$ (1,983)	\$ 1,921	\$ 3,874	\$ (1,896)	\$ 1,978

(a) Changes in gross carrying amounts consisted primarily of adjustments for acquired intangible assets and foreign currency translation.

(b) Consisted of acquired backlog and probable follow-on work and associated customer relationships.

Amortization expense is included in operating costs and expenses in the Consolidated Statement of Earnings. Amortization expense for intangible assets was \$53 and \$152 for the three- and nine-month periods ended October 2, 2022, and \$59 and \$170 for the three- and nine-month periods ended October 3, 2021, respectively.

H. DEBT

Debt consisted of the following:

		October 2, 2022	December 31, 2021
Fixed-rate notes due:	Interest rate:		
November 2022	2.250%	\$ 1,000	\$ 1,000
May 2023	3.375%	750	750
August 2023	1.875%	500	500
November 2024	2.375%	500	500
April 2025	3.250%	750	750
May 2025	3.500%	750	750
June 2026	1.150%	500	500
August 2026	2.125%	500	500
April 2027	3.500%	750	750
November 2027	2.625%	500	500
May 2028	3.750%	1,000	1,000
April 2030	3.625%	1,000	1,000
June 2031	2.250%	500	500
April 2040	4.250%	750	750
June 2041	2.850%	500	500
November 2042	3.600%	500	500
April 2050	4.250%	750	750
Other	Various	89	106
Total debt principal		11,589	11,606
Less unamortized debt issuance costs and discounts		98	111
Total debt		11,491	11,495
Less current portion		2,252	1,005
Long-term debt		\$ 9,239	\$ 10,490

On October 2, 2022, we had no commercial paper outstanding, but we maintain the ability to access the commercial paper market in the future. Separately, we have a \$4 billion committed bank credit facility for general corporate purposes and working capital needs and to support our commercial paper issuances. This credit facility expires in March 2027. We may renew or replace this credit facility in whole or in part at or prior to its expiration date. We also have an effective shelf registration on file with the SEC 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 October 2, 2022.

I. OTHER LIABILITIES

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

	October 2, 2022	December 31, 2021
Salaries and wages	\$ 1,068	\$ 1,022
Dividends payable	347	331
Lease liabilities	297	337
Retirement benefits	277	288
Workers' compensation	246	270
Other	1,405	1,292
Total other current liabilities	\$ 3,640	\$ 3,540
Retirement benefits	\$ 2,474	\$ 2,813
Customer deposits on commercial contracts	2,459	1,250
Lease liabilities	1,334	1,343
Other	2,300	2,558
Total other liabilities	\$ 8,567	\$ 7,964

J. COMMITMENTS AND CONTINGENCIES

Litigation

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

In the third quarter of 2019, the Department of Justice declined to intervene in the qui tam action, noting that its investigation continues, and the court unsealed the relator's complaint. In the fourth quarter of 2020, the relator filed a second amended complaint. In the third quarter of 2021, the court dismissed the relator's complaint with prejudice. The relator has appealed the dismissal of the complaint to the United States Court of Appeals. 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 \$1.1 billion on October 2, 2022. 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 October 2, 2022, 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 October 2, 2022, and October 3, 2021, were as follows:

Nine Months Ended	October 2, 2022	October 3, 2021
Beginning balance	\$ 641	\$ 660
Warranty expense	67	73
Payments	(84)	(94)
Adjustments	(21)	(14)
Ending balance	\$ 603	\$ 625

K. SHAREHOLDERS' EQUITY

Share Repurchases. Our board of directors, from time to time, authorizes management to repurchase outstanding shares of our common stock on the open market. In the nine-month period ended October 2, 2022, we repurchased 4.9 million of our outstanding shares for \$1.1 billion. On October 2, 2022, 7.2 million shares remained authorized by our board of directors for repurchase, representing 2.6% of our total shares outstanding. We repurchased 8.5 million shares for \$1.5 billion in the nine-month period ended October 3, 2021.

Dividends per Share. Our board of directors declared dividends per share of \$1.26 and \$3.78 for the three- and nine-month periods ended October 2, 2022, and \$1.19 and \$3.57 for the three- and nine-month periods ended October 3, 2021, respectively. We paid cash dividends of \$345 and \$1 billion for the three- and nine-month periods ended October 2, 2022, and \$332 and \$983 for the three- and nine-month periods ended October 3, 2021, 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:

	Changes in Unrealized Cash Flow Hedges	Foreign Currency Translation Adjustments	Changes in Retirement Plans' Funded Status	AOCL
December 31, 2021	\$ 144	\$ 538	\$ (2,602)	\$ (1,920)
Other comprehensive loss, pretax	(223)	(500)	134	(589)
Benefit for income tax, net	59	—	(28)	31
Other comprehensive loss, net of tax	(164)	(500)	106	(558)
October 2, 2022	\$ (20)	\$ 38	\$ (2,496)	\$ (2,478)
December 31, 2020	\$ 272	\$ 641	\$ (4,463)	\$ (3,550)
Other comprehensive income, pretax	(134)	(77)	260	49
Provision for income tax, net	36	—	(56)	(20)
Other comprehensive income, net of tax	(98)	(77)	204	29
October 3, 2021	\$ 174	\$ 564	\$ (4,259)	\$ (3,521)

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

L. SEGMENT INFORMATION

We have four operating segments: Aerospace, Marine Systems, Combat Systems and Technologies. 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 (a)		Operating Earnings	
	October 2, 2022	October 3, 2021	October 2, 2022	October 3, 2021
Aerospace	\$ 2,347	\$ 2,066	\$ 312	\$ 262
Marine Systems	2,769	2,637	238	229
Combat Systems	1,788	1,745	271	276
Technologies	3,071	3,120	285	327
Corporate (b)	—	—	(8)	(14)
Total	\$ 9,975	\$ 9,568	\$ 1,098	\$ 1,080

Nine Months Ended				
Aerospace	\$ 6,117	\$ 5,575	\$ 793	\$ 677
Marine Systems	8,071	7,656	660	639
Combat Systems	5,129	5,464	743	786
Technologies	9,239	9,482	887	941
Corporate (b)	—	—	(99)	(66)
Total	\$ 28,556	\$ 28,177	\$ 2,984	\$ 2,977

(a) See Note B for additional revenue information by segment.

(b) Corporate operating results consisted primarily of equity-based compensation expense.

M. 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.
- 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 October 2, 2022, or December 31, 2021.

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 October 2, 2022, and December 31, 2021, and the basis for determining their fair values:

	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets (Liabilities)	October 2, 2022				
Measured at fair value:					
Marketable securities held in trust:					
Cash and equivalents	\$ 3	\$ 3	\$ —	\$ 3	\$ —
Available-for-sale debt securities	104	104	—	104	—
Equity securities	47	47	47	—	—
Other investments	17	17	—	—	17
Cash flow hedge assets	107	107	—	107	—
Cash flow hedge liabilities	(155)	(155)	—	(155)	—
Measured at amortized cost:					
Short- and long-term debt principal	(11,589)	(10,623)	—	(10,623)	—
	December 31, 2021				
Measured at fair value:					
Marketable securities held in trust:					
Cash and equivalents	\$ 4	\$ 4	\$ —	\$ 4	\$ —
Available-for-sale debt securities	125	125	—	125	—
Equity securities	62	62	62	—	—
Other investments	12	12	—	—	12
Cash flow hedge assets	320	320	—	320	—
Cash flow hedge liabilities	(98)	(98)	—	(98)	—
Measured at amortized cost:					
Short- and long-term debt principal	(11,606)	(12,549)	—	(12,549)	—

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

N. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to market risk, primarily from foreign currency exchange 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.

Commodity Price Risk. We are subject to 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 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 October 2, 2022, and December 31, 2021, we held \$2.5 billion and \$1.6 billion 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 pension plans. On October 2, 2022, and December 31, 2021, we held marketable securities in trust of \$154 and \$191, respectively. These marketable securities are reflected at fair value on the Consolidated Balance Sheet in other current and noncurrent assets. See Note M for additional details.

Hedging Activities. We had notional forward exchange contracts outstanding of \$6 billion and \$6.8 billion on October 2, 2022, and December 31, 2021, 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 M 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, generally operating costs and expenses.

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 October 2, 2022, and October 3, 2021. Net gains and losses reclassified to earnings from AOCL related to qualified hedges were also not material to our results of operations for the three- and nine-month periods ended October 2, 2022, and October 3, 2021, 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 October 2, 2022, and December 31, 2021.

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

We do not hedge the fluctuation in reported revenue and earnings resulting from the translation of these international operations' results into U.S. dollars. The impact of translating our non-U.S. operations' revenue and earnings into U.S. dollars was not material to our results of operations for the three- and nine-month periods ended October 2, 2022, and October 3, 2021. 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 October 2, 2022, and October 3, 2021.

O. RETIREMENT PLANS

We provide retirement benefits to eligible employees through a variety of plans:

- Defined contribution
- Defined benefit
 - Pension (qualified and non-qualified)
 - Other post-retirement benefit

For our defined benefit plans, net periodic benefit credit for the three- and nine-month periods ended October 2, 2022, and October 3, 2021, consisted of the following:

Three Months Ended	Pension Benefits		Other Post-retirement Benefits	
	October 2, 2022	October 3, 2021	October 2, 2022	October 3, 2021
Service cost	\$ 26	\$ 30	\$ 1	\$ 2
Interest cost	100	90	4	5
Expected return on plan assets	(227)	(241)	(7)	(9)
Net actuarial loss (gain)	54	91	(4)	—
Prior service credit	(5)	(5)	—	—
Net periodic benefit credit	\$ (52)	\$ (35)	\$ (6)	\$ (2)

Nine Months Ended				
Service cost	\$ 78	\$ 89	\$ 4	\$ 7
Interest cost	300	270	14	14
Expected return on plan assets	(682)	(723)	(23)	(27)
Net actuarial loss (gain)	161	274	(13)	—
Prior service (credit) cost	(15)	(15)	1	—
Net periodic benefit credit	\$ (158)	\$ (105)	\$ (17)	\$ (6)

Our contractual arrangements with the U.S. government provide for the recovery of pension and other post-retirement benefit costs related to employees working on government contracts. As we expect to recover these costs, we defer them in other contract costs in other current assets on the Consolidated Balance Sheet until they can be allocated to contracts, which is generally after they are paid. To the extent there is a non-service component of net periodic benefit credit for our defined benefit plans, it is reported in other income (expense) in the Consolidated Statement of Earnings.

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; ship construction and repair; land combat vehicles, weapons systems and munitions; and technology products and services.

Our company is organized into four operating segments: Aerospace, Marine Systems, Combat Systems and Technologies. We refer to the latter three collectively as our defense segments. Our primary customer is the U.S. government, including the Department of Defense (DoD), the intelligence community and other U.S. government customers. We also have significant business with non-U.S. governments and a diverse base of corporate and individual buyers of business jet aircraft and related services. The following discussion should be read in conjunction with our 2021 Annual Report on Form 10-K and with the unaudited Consolidated Financial Statements included in this Form 10-Q.

BUSINESS ENVIRONMENT

With approximately 70% of our revenue from the U.S. government, government spending levels — particularly defense spending — influence our financial performance. The Congress has not yet passed a defense appropriations bill for the government's fiscal year (FY) 2023 despite the fact that the new year began on October 1, 2022. However, on September 30, 2022, a continuing resolution (CR) was signed into law, providing funding for federal agencies through December 16, 2022. When the government operates under a CR, all programs of record are funded at the prior year's appropriated levels, and the DoD is prohibited from starting new programs. While this could result in delayed revenue growth as programs that were expected to have increased funding levels continue to operate at the prior-year levels until the current-year appropriations bill is signed into law, we do not anticipate that the current CR will have a material impact on our results of operations, financial condition or cash flows.

In February 2022, Russian forces invaded Ukraine. In response, the United States and several other countries imposed economic and trade sanctions, export controls and other restrictions (collectively, global sanctions) targeting Russia and Belarus. The conflict and these sanctions have caused some disruptions to global economies and some global businesses, including heightened cybersecurity risks, supply chain challenges, increased energy costs and foreign currency exchange rate fluctuations, as well as exacerbated existing inflationary pressures.

Within our defense segments, the Russia-Ukraine conflict has created a few potential supply chain challenges, which we continue to monitor and manage. The conflict could impact the fiscal year 2023 U.S. government defense budget due to the heightened national security threat and the need to replenish stockpiles that have been reduced in support of Ukraine. Internationally, many countries in the region have expressed a renewed commitment to defense-related spending. As a result, we may see additional demand for our products and services.

In our Aerospace segment, we continue to see strong order activity as we emerge from the impacts of the coronavirus (COVID-19) pandemic. However, this segment is the most impacted relatively by the global sanctions, particularly our aircraft services business in Europe, which we have offset to date

through additional services revenue in other regions. Across the aerospace industry, the sanctions impact sales to certain individuals and entities and exports of associated aircraft parts and related services.

We continue to assess the conflict and related sanctions to help ensure compliance and take steps to attempt to mitigate any potential negative impact on our business, which to this point has not been material. Any longer-term impact to our business is currently unknown due to the uncertainty around the conflict's duration, any further global sanctions and their broader impact.

RESULTS OF OPERATIONS

INTRODUCTION

The following paragraphs explain how we recognize revenue and operating costs in our operating segments and the terminology we use to describe our operating results.

In the Aerospace segment, we record revenue on contracts for new aircraft when the customer obtains control of the asset, which is generally upon delivery and acceptance by the customer of the fully outfitted aircraft. Revenue associated with the segment's 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, 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 services businesses are recognized generally as incurred.

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

In the defense segments, revenue on long-term government contracts is recognized generally over time as the work progresses, either as products are produced or as services are rendered. Typically, revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred costs represent 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 costs result in corresponding variances in revenue, which we generally refer to as volume.

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

CONSOLIDATED OVERVIEW

Three Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 9,975	\$ 9,568	\$ 407	4.3%
Operating costs and expenses	(8,877)	(8,488)	(389)	4.6%
Operating earnings	1,098	1,080	18	1.7%
Operating margin	11.0%	11.3%		
Nine Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 28,556	\$ 28,177	\$ 379	1.3%
Operating costs and expenses	(25,572)	(25,200)	(372)	1.5%
Operating earnings	2,984	2,977	7	0.2%
Operating margin	10.4%	10.6%		

Our consolidated revenue increased in the third quarter and first nine months of 2022 as higher volume in our Aerospace and Marine Systems segments offset lower volume from international military vehicles in our Combat Systems segment and C5ISR (command, control, communications, computers, cyber, intelligence, surveillance and reconnaissance) solutions in our Technologies segment. Operating earnings increased in the three- and nine-month periods, albeit at lower rates than the respective revenue growth, as we managed through the impacts of a shifting program mix, as well as supply chain constraints and inflationary pressure. Operating margin decreased 30 basis points in the third quarter and 20 basis points in the first nine months of 2022 compared with the prior-year periods.

REVIEW OF OPERATING SEGMENTS

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

AEROSPACE

Three Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 2,347	\$ 2,066	\$ 281	13.6%
Operating earnings	312	262	50	19.1%
Operating margin	13.3%	12.7%		
Gulfstream aircraft deliveries (in units)	35	31	4	12.9%
Nine Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 6,117	\$ 5,575	\$ 542	9.7%
Operating earnings	793	677	116	17.1%
Operating margin	13.0%	12.1%		
Gulfstream aircraft deliveries (in units)	82	80	2	2.5%

Operating Results

The increase in the Aerospace segment's revenue in the third quarter and first nine months of 2022 consisted of the following:

	Third Quarter	Nine Months
Aircraft services	\$ 31	\$ 362
Aircraft manufacturing	250	180
Total increase	\$ 281	\$ 542

Aircraft services revenue was up in the third quarter and first nine months of 2022 due to additional demand for maintenance work and increased activity at our fixed-base operator (FBO) facilities driven by growing global air travel. Aircraft manufacturing revenue increased in the third quarter and first nine months of 2022 due primarily to additional deliveries of the large-cabin G600 and ultra-large-cabin G650 aircraft.

In the third quarter, the company installed a software update to address an airworthiness directive (AD) that had been issued by the U.S. Federal Aviation Administration (FAA) in the second quarter of 2022. The AD placed limitations on permissible landing conditions for the G500 and G600 aircraft models, which delayed the delivery of some aircraft from the second quarter to the third quarter.

The increase in the segment's operating earnings in the third quarter and first nine months of 2022 consisted of the following:

	Third Quarter	Nine Months
Aircraft manufacturing	\$ 73	\$ 131
Aircraft services	(11)	76
G&A/other expenses	(12)	(91)
Total increase	\$ 50	\$ 116

Aircraft manufacturing operating earnings were up due to a favorable mix of aircraft deliveries and ongoing improvements in manufacturing efficiency. Earnings in 2022 were somewhat impacted by customer accommodations associated with the G500/G600 AD while 2021 earnings included mark-to-market adjustments taken in the first quarter related to aircraft that were in the G500 test program.

Aircraft services operating earnings were up in the first nine months of 2022 due to higher volume and favorable cost performance, offset by an unfavorable mix of aircraft services in the third quarter. These increases were offset partially by higher G&A/other expenses due primarily to increased R&D expenses associated with ongoing product development efforts.

In total, the Aerospace segment's operating margin increased 60 basis points in the third quarter and 90 basis points in the first nine months of 2022 compared with the prior-year periods.

MARINE SYSTEMS

Three Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 2,769	\$ 2,637	\$ 132	5.0%
Operating earnings	238	229	9	3.9%
Operating margin	8.6%	8.7%		
Nine Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 8,071	\$ 7,656	\$ 415	5.4%
Operating earnings	660	639	21	3.3%
Operating margin	8.2%	8.3%		

Operating Results

The increase in the Marine Systems segment's revenue in the third quarter and first nine months of 2022 consisted of the following:

	Third Quarter	Nine Months
U.S. Navy ship construction	\$ 156	\$ 314
U.S. Navy ship engineering, repair and other services	(24)	101
Total increase	\$ 132	\$ 415

Revenue from U.S. Navy ship construction was up in the third quarter and first nine months of 2022 due to increased volume on the Columbia-class submarine program and the John Lewis-class (T-AO-205) fleet replenishment oiler program. In the first nine months of 2022, revenue from U.S. Navy ship engineering, repair and other services increased due to a higher volume of submarine repair work. Overall, the Marine Systems segment's operating margin decreased 10 basis points in the third quarter and in the first nine months of 2022 due to program mix and supply chain impacts to the Virginia-class submarine schedule, offset partially by improved performance at NASSCO.

COMBAT SYSTEMS

Three Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 1,788	\$ 1,745	\$ 43	2.5 %
Operating earnings	271	276	(5)	(1.8)%
Operating margin	15.2%	15.8%		
Nine Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 5,129	\$ 5,464	\$ (335)	(6.1)%
Operating earnings	743	786	(43)	(5.5)%
Operating margin	14.5%	14.4%		

Operating Results

The change in the Combat Systems segment's revenue in the third quarter and first nine months of 2022 consisted of the following:

	Third Quarter	Nine Months
International military vehicles	\$ (61)	\$ (370)
Weapons systems and munitions	(5)	(173)
U.S. military vehicles	109	208
Total increase (decrease)	\$ 43	\$ (335)

Revenue from international military vehicles decreased in the third quarter and first nine months of 2022 due in large part to timing on several wheeled and tracked vehicle contracts. In the first nine months of 2022, weapons systems and munitions revenue was down due to decreased production of various U.S. munitions and ordnance. Offsetting these decreases was increased revenue from U.S. Stryker wheeled combat vehicles, particularly the maneuver short-range air defense (M-SHORAD) variant.

The strengthening of the U.S. dollar against the euro and British pound has negatively impacted the Combat Systems segment's results in 2022, specifically the translation of our international revenue from local currencies into U.S. dollars. Had foreign exchange rates in the third quarter and first nine months of 2022 held constant from the same periods in 2021, the Combat Systems segment's revenue would have increased 5.6% in the third quarter and decreased only 3.9% in the first nine months of 2022 compared to the prior-year periods.

Overall, the Combat Systems segment's operating margin decreased 60 basis points in the third quarter but increased 10 basis points in the first nine months of 2022 driven by contract mix.

TECHNOLOGIES

Three Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 3,071	\$ 3,120	\$ (49)	(1.6)%
Operating earnings	285	327	(42)	(12.8)%
Operating margin	9.3%	10.5%		
Nine Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 9,239	\$ 9,482	\$ (243)	(2.6)%
Operating earnings	887	941	(54)	(5.7)%
Operating margin	9.6%	9.9%		

Operating Results

The change in the Technologies segment's revenue in the third quarter and first nine months of 2022 consisted of the following:

	Third Quarter	Nine Months
C5ISR solutions	\$ (29)	\$ (217)
Information technology (IT) services	(20)	(26)
Total decrease	\$ (49)	\$ (243)

C5ISR solutions revenue was down in the third quarter and first nine months of 2022 due primarily to continued and additional supply chain disruptions and delays in customer order activity due to a shortage of customer staff. IT services volume was down slightly in the third quarter and first nine months of 2022 due to program timing. Overall, the Technologies segment's operating margin decreased 120 basis points in the third quarter and 30 basis points in the first nine months of 2022 due to program mix.

CORPORATE

Corporate operating results totaled \$8 in the third quarter and \$99 in the first nine months of 2022 compared with \$14 and \$66 in the prior-year periods, respectively, and consisted primarily of equity-based compensation expense. The increase in the first nine months of 2022 was due to accelerated recognition of equity-based compensation expense.

OTHER INFORMATION

PRODUCT REVENUE AND OPERATING COSTS

Three Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 5,935	\$ 5,518	\$ 417	7.6%
Operating costs	(4,905)	(4,552)	(353)	7.8%
Nine Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 16,201	\$ 16,033	\$ 168	1.0%
Operating costs	(13,386)	(13,249)	(137)	1.0%

The increase in product revenue in the third quarter and first nine months of 2022 consisted of the following:

	Third Quarter	Nine Months
Ship construction	\$ 156	\$ 314
Aircraft manufacturing	250	180
C5ISR products	(42)	(176)
Weapons systems and munitions	(5)	(173)
Other, net	58	23
Total increase	\$ 417	\$ 168

Ship construction revenue increased in the third quarter and the first nine months of 2022 driven by higher volume on the Columbia-class submarine and T-AO-205 fleet replenishment oiler programs. Aircraft manufacturing revenue increased due primarily to additional deliveries of the large-cabin G600 and ultra-large-cabin G650 aircraft. These increases were offset partially by lower revenue from C5ISR products due to continued supply chain disruptions and delays in customer order activity, and reduced weapons systems and munitions volume resulting from decreased production of various U.S. munitions and ordnance. In the third quarter and first nine months of 2022, the primary drivers of the increase in product operating costs were the changes in volume on the programs described above.

SERVICE REVENUE AND OPERATING COSTS

Three Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 4,040	\$ 4,050	\$ (10)	(0.2)%
Operating costs	(3,405)	(3,386)	(19)	0.6 %
Nine Months Ended	October 2, 2022	October 3, 2021	Variance	
Revenue	\$ 12,355	\$ 12,144	\$ 211	1.7 %
Operating costs	(10,379)	(10,286)	(93)	0.9 %

The change in service revenue in the third quarter and first nine months of 2022 consisted of the following:

	Third Quarter	Nine Months
Aircraft services	\$ 31	\$ 362
Other, net	(41)	(151)
Total (decrease) increase	\$ (10)	\$ 211

Aircraft services revenue increased in the third quarter and first nine months of 2022 due to additional maintenance work and increased FBO activity. Service operating costs increased on lower revenue in the third quarter of 2022 due to mix of work. Operating costs increased at a lower rate than revenue in the first nine months of 2022 due primarily to strong operating performance in our IT services business.

G&A EXPENSES

As a percentage of revenue, G&A expenses were 6.3% in the first nine months of 2022 compared with 5.9% in the first nine months of 2021, reflecting accelerated recognition of equity-based compensation expense in the first quarter of 2022.

OTHER, NET

Net other income was \$120 in the first nine months of 2022 compared with \$95 in the first nine months of 2021 and represents primarily the non-service components of pension and other post-retirement benefits.

INTEREST, NET

Net interest expense was \$279 in the first nine months of 2022 compared with \$331 in the prior-year period, reflecting repayment of our scheduled debt maturities in 2021. See Note H to the unaudited

Consolidated Financial Statements in Part I, Item 1, for additional information regarding our debt obligations, including interest rates.

PROVISION FOR INCOME TAX, NET

Our effective tax rate was 15.1% in the first nine months of 2022 compared with 15.9% in the prior-year period. For 2022, we continue to anticipate a full-year effective tax rate of approximately 16%.

In August 2022, the president signed into law the Inflation Reduction Act of 2022, which contained provisions effective January 1, 2023, including a 15% corporate minimum tax and a 1% excise tax on stock buybacks, both of which we do not expect to have a material impact on our results of operations, financial condition or cash flows.

BACKLOG AND ESTIMATED POTENTIAL CONTRACT VALUE

Our total backlog, including funded and unfunded portions, was \$88.8 billion at the end of the third quarter of 2022 compared with \$87.6 billion at the end of the second quarter. Our total backlog is equal to our remaining performance obligations under contracts with customers as discussed in Note B 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 \$125.8 billion on October 2, 2022.

The following table details the backlog and estimated potential contract value of each segment at the end of the third and second quarters of 2022:

	Funded	Unfunded	Total Backlog	Estimated Potential Contract Value	Total Estimated Contract Value
	October 2, 2022				
Aerospace	\$ 18,536	\$ 516	\$ 19,052	\$ 773	\$ 19,825
Marine Systems	26,966	15,273	42,239	3,263	45,502
Combat Systems	13,305	534	13,839	5,754	19,593
Technologies	10,130	3,573	13,703	27,162	40,865
Total	\$ 68,937	\$ 19,896	\$ 88,833	\$ 36,952	\$ 125,785
	July 3, 2022				
Aerospace	\$ 18,237	\$ 549	\$ 18,786	\$ 877	\$ 19,663
Marine Systems	26,965	14,873	41,838	3,904	45,742
Combat Systems	13,236	202	13,438	6,939	20,377
Technologies	9,448	4,120	13,568	27,028	40,596
Total	\$ 67,886	\$ 19,744	\$ 87,630	\$ 38,748	\$ 126,378

AEROSPACE

Aerospace funded backlog represents primarily new aircraft 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 2022 with backlog of \$19.1 billion, up 1.4% from \$18.8 billion on July 3, 2022, and up 29.7% in the past year.

Orders in the third quarter of 2022 reflected strong 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 1.2-to-1 in the third quarter of 2022 and 1.6-to-1 over the trailing 12 months.

Beyond total backlog, estimated potential contract value represents primarily options and other agreements with existing customers to purchase new aircraft and long-term aircraft services agreements. On October 2, 2022, estimated potential contract value in the Aerospace segment was \$773.

DEFENSE SEGMENTS

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

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

Total backlog in our defense segments was \$69.8 billion on October 2, 2022. In the third quarter of 2022, the total book-to-bill ratio in our defense segments was 1.1-to-1 with each of our defense segments achieving book-to-bill ratios of 1-to-1 or greater. Estimated potential contract value in our defense segments was \$36.2 billion on October 2, 2022. We received the following significant contract awards during the third quarter:

MARINE SYSTEMS

- \$1.4 billion from the U.S. Navy for construction of an additional Expeditionary Sea Base (ESB) auxiliary support ship and two additional T-AO-205 oilers following orders for long-lead materials awarded in the second quarter of 2022. The award also includes a \$715 option for an additional T-AO-205 oiler.
- \$700 from the Navy for maintenance and modernization work on the USS Hartford, a Los Angeles-class submarine.
- \$235 from the Navy to provide engineering, technical, design and planning yard support services for operational strategic and attack submarines.
- \$45 from the Navy for lead yard services, development studies and design efforts for Virginia-class submarines.

COMBAT SYSTEMS

- A contract worth up to \$1.1 billion to produce Abrams main battle tanks in the system enhancement package version 3 (SEPV3) configuration for Poland.
- \$370 for various munitions and ordnance.
- \$165 to produce 39 additional light armored vehicles (LAVs) for the Canadian government.
- \$125 from the U.S. Army to provide system and sustainment technical support services for Abrams main battle tanks.
- \$80 from the Army for the production of Hydra-70 rockets.
- \$40 from the U.S. Defense Logistics Agency (DLA) to provide spare parts for Abrams main battle tanks.

TECHNOLOGIES

- An IDIQ contract to provide IT infrastructure and modernization support services for the U.S. Air Forces in Europe under the Europe-Wide Information Technology and Enterprise Network (EITEN) program. The contract has a maximum potential value of \$910.
- \$315 for several key classified contracts.
- A contract from the Navy to support development, production and installation of fire control systems for the Columbia- and Dreadnought-classes of ballistic missile submarines. The contract has a maximum potential value of \$275.
- \$60 to provide the Army National Guard with an integrated network and security operations center. The contract has a maximum potential value of \$265.
- \$160 from the U.S. Department of State (DoS) to provide overseas consular services to support visa application and issuance at U.S. embassies and consulates throughout the world under the Global Support Strategy (GSS) program.
- \$95 to provide IT network operations and maintenance services for the Army.
- \$85 from the Army for computing and communications equipment under the Common Hardware Systems-5 (CHS-5) program.
- \$70 from the Army to provide hardware, software and logistics sustainment support.
- \$55 from the U.S. Air Force for the Battlefield Information Collection and Exploitation System (BICES) program to provide intelligence information sharing capabilities.
- \$50 from the Defense Information Systems Agency (DISA) to provide enterprise network and telecommunications services.

LIQUIDITY AND CAPITAL RESOURCES

We place a strong emphasis on cash flow generation, which is underpinned by an operating discipline focused on cost control and working capital management. This emphasis gives us the flexibility for

prudent capital deployment, while allowing us to step down debt over time, and preserves a strong balance sheet for future opportunities.

We evaluate a variety of capital deployment options based on current market conditions and our long-term outlook, and we believe agility is a key component of our capital deployment strategy as market conditions change over time. Our capital deployment priorities include investments in our products and services to drive long-term growth, a predictable dividend, strategic acquisitions and opportunistic share repurchases.

We believe cash generated by operating activities, supplemented by commercial paper issuances, is sufficient to satisfy our short- and long-term liquidity needs. An additional potential source of capital is the issuance of long-term debt in capital market transactions.

We ended the third quarter of 2022 with a cash and equivalents balance of \$2.5 billion compared with \$1.6 billion at the end of 2021. The following is a discussion of our major operating, investing and financing activities in the first nine months of 2022 and 2021, as classified on the unaudited Consolidated Statement of Cash Flows in Part I, Item 1:

Nine Months Ended	October 2, 2022	October 3, 2021
Net cash provided by operating activities	\$ 3,910	\$ 2,589
Net cash used by investing activities	(998)	(501)
Net cash used by financing activities	(2,040)	(1,757)

OPERATING ACTIVITIES

Cash provided by operating activities was \$3.9 billion in the first nine months of 2022 compared with \$2.6 billion in the same period in 2021. The primary driver of cash inflows in both periods was net earnings. Cash flows in the first nine months of 2022 were affected positively by an increase in customer deposits associated with Gulfstream aircraft orders and a decrease in unbilled receivables driven by the receipt of progress payments on a large international wheeled vehicle contract in our Combat Systems segment. Cash flows in the first nine months of 2021 were affected negatively by the timing of billings and payments in our defense segments.

INVESTING ACTIVITIES

Cash used by investing activities was \$998 in the first nine months of 2022 compared with \$501 in the same period in 2021. Our investing activities include cash paid for capital expenditures and business acquisitions; purchases, sales and maturities of marketable securities; and proceeds from asset sales. The primary use of cash for investing activities in both periods was capital expenditures. Capital expenditures were \$620 in the first nine months of 2022 compared with \$502 in the same period in 2021. In the third quarter of 2022, we acquired a provider of mission-critical embedded computing solutions for U.S. Navy platforms in our Technologies segment.

FINANCING ACTIVITIES

Cash used by financing activities was \$2 billion in the first nine months of 2022 compared with \$1.8 billion in the same period in 2021. Financing activities include the use of cash for repurchases of common stock, payment of dividends, and debt and commercial paper repayments. Our financing activities also include proceeds received from debt and commercial paper issuances and employee stock option exercises.

Our board of directors from time to time authorizes management to repurchase outstanding shares of our common stock on the open market. We paid \$1.1 billion and \$1.5 billion in the first nine months of 2022 and 2021, respectively, to repurchase our outstanding shares. On October 2, 2022, 7.2 million shares remained authorized by our board of directors for repurchase, representing 2.6% of our total shares outstanding.

On March 2, 2022, our board of directors declared an increased quarterly dividend of \$1.26 per share, the 25th consecutive annual increase. Previously, the board had increased the quarterly dividend to \$1.19 per share in March 2021. Cash dividends paid were \$1 billion in the first nine months of 2022 compared with \$983 in the same period in 2021.

Fixed-rate notes of \$1 billion mature in November 2022. We intend to repay these notes with cash on hand at maturity. For additional information regarding our debt obligations, including scheduled debt maturities and interest rates, see Note H to the unaudited Consolidated Financial Statements in Part I, Item 1.

On October 2, 2022, we had no commercial paper outstanding, but we maintain the ability to access the commercial paper market in the future. Separately, we have a \$4 billion committed bank credit facility for general corporate purposes and working capital needs and to support our commercial paper issuances. We also have an effective shelf registration on file with the Securities and Exchange Commission (SEC) that allows us to access the debt markets.

NON-GAAP FINANCIAL MEASURE - FREE CASH FLOW

We emphasize the efficient conversion of net earnings into cash and the deployment of that cash to maximize shareholder returns. As described below, we use free cash flow 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 as net cash provided by operating activities less capital expenditures. We believe free cash flow is a useful measure for investors because it portrays our ability to generate cash from our businesses for purposes such as repaying debt, funding business acquisitions, repurchasing our common stock and paying dividends. We use free cash flow to assess the quality of our earnings and as a key performance measure in evaluating management. The following table reconciles free cash flow 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	October 2, 2022	October 3, 2021
Net cash provided by operating activities	\$ 3,910	\$ 2,589
Capital expenditures	(620)	(502)
Free cash flow	\$ 3,290	\$ 2,087
Cash flows as a percentage of net earnings:		
Net cash provided by operating activities	163%	112%
Free cash flow	137%	91%

ADDITIONAL FINANCIAL INFORMATION

ENVIRONMENTAL MATTERS AND OTHER CONTINGENCIES

For a discussion of environmental matters and other contingencies, see Note J to the unaudited Consolidated Financial Statements in Part I, Item 1. Except as otherwise noted in Note J, 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 AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on the unaudited Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. We employ judgment in making our estimates, but they are based on historical experience, currently available information and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe our judgment is applied consistently and produces financial information that fairly depicts our results of operations for all periods presented.

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 \$115 (\$0.33) and \$321 (\$0.91) for the three- and nine-month periods ended October 2, 2022, and \$134 (\$0.38) and \$273 (\$0.76) for the three- and nine-month periods ended October 3, 2021, respectively. While no adjustment on any one contract was material to the unaudited Consolidated Financial Statements for the three- and nine-month periods ended October 2, 2022, or October 3, 2021, our Marine Systems segment's 2022 results were negatively affected by supply chain impacts to the Virginia-class submarine schedule, offset partially by improved performance on auxiliary and support ships.

Other critical accounting policies and estimates include long-lived assets and goodwill, commitments and contingencies, and retirement plans. For a full discussion of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the year ended December 31, 2021.

GUARANTOR FINANCIAL INFORMATION

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

Because the parent is a holding company, its cash flow and ability to service its debt, including the outstanding notes, depends on the performance of its subsidiaries and the ability of those subsidiaries to distribute cash to the parent, whether by dividends, loans or otherwise. Holders of the outstanding notes have a direct claim only against the parent and the guarantors.

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

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

STATEMENT OF EARNINGS INFORMATION

	Nine Months Ended October 2, 2022	Year Ended December 31, 2021
Revenue	\$ 10,183	\$ 13,444
Operating costs and expenses, excluding G&A	(8,811)	(11,604)
Net earnings	574	687

BALANCE SHEET INFORMATION

	October 2, 2022	December 31, 2021
Cash and equivalents	\$ 1,729	\$ 925
Other current assets	3,740	3,149
Noncurrent assets	3,946	3,597
Total assets	\$ 9,415	\$ 7,671
Short-term debt and current portion of long-term debt	\$ 2,249	\$ 999
Other current liabilities	3,272	3,190
Long-term debt	9,188	10,424
Other noncurrent liabilities	3,544	3,844
Total liabilities	\$ 18,253	\$ 18,457

The summarized balance sheet information presented above includes the funded status of the company's primary qualified U.S. government pension plans as the parent has the ultimate obligation for the plans.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes with respect to this item from the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2021.

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 October 2, 2022. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, on October 2, 2022, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the quarter ended October 2, 2022, 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," "forecasts," "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 the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021. These factors include, among others:

- general U.S. and international political and economic conditions;
- decreases in U.S. government defense spending or changing priorities within the defense budget;
- termination of government contracts due to unilateral government action;
- differences in anticipated and actual program performance, including the ability to perform within estimated costs, and performance issues with key suppliers and subcontractors;
- expected recovery on contract claims and requests for equitable adjustment;
- changing customer demand for business aircraft, including the effects of economic conditions on the business-aircraft market;
- changing prices for energy and raw materials;
- the negative impact of the COVID-19 pandemic, or other similar outbreaks;
- 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;
- cybersecurity events and other disruptions;
- risks and uncertainties relating to our acquisitions and joint ventures; and
- potential for increased regulation related to global climate change.

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 revisions to any 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 future filings with the SEC.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information relating to legal proceedings, see Note J 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, 2021.

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	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Program
<i>Shares Delivered or Withheld Pursuant to Restricted Stock Vesting*</i>				
7/4/22-7/31/22	4,877	\$ 219.02		
8/1/22-8/28/22	2,750	227.37		
8/29/22-10/2/22	2,912	228.95		
	<u>10,539</u>	\$ 223.94		

* 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.

We did not make any unregistered sales of equity securities in the third quarter of 2022.

ITEM 6. EXHIBITS

22	<u>Subsidiary Guarantors (incorporated herein by reference from Exhibit 22 to the company's quarterly report on Form 10-Q for the quarter ended October 3, 2021, filed with the SEC on October 27, 2021)</u>
31.1	<u>Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</u>
31.2	<u>Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</u>
32.1	<u>Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</u>
32.2	<u>Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</u>
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 /s/ William A. Moss
William A. Moss
Vice President and Controller
(Authorized Officer and Chief Accounting Officer)

Dated: October 26, 2022