

GENERAL DYNAMICS CORP
Form DEFA14A
April 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only
(as permitted by Rule 14a-6(e) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material

Pursuant to Section 240.14a-12

General Dynamics Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

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(3) Filing Party:

(4) Date Filed:

April 2014
Shareholder Outreach on Executive Compensation
April 2014

April 2014
Executive Summary
Focused Strategy Under New CEO in 2013
Strong Company Performance and Return of Capital to
Shareholders
Shareholder Outreach and Response to 2013 Say on Pay Vote
Compensation Structure Linking Pay to Performance
Strong, Independent Compensation Governance and Practices
Balanced Board Tenure and Sound Governance Practices

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April 2014
Focused Strategy Under New CEO
New
Leadership
with
a
Refined
Focus.
Phebe
Novakovic

became
Chair
and CEO on January 1, 2013, articulating a focus on getting *Back to Basics*
Strong,
Improving
Performance.
By
highlighting
operational
effectiveness
and
cost
management,
each
of
the
four
business
groups

Aerospace,
Information Systems and Technology, Combat Systems and Marine
Systems

demonstrated strong and improving performance in 2013
Driving
Growth
and
Value.
The
company
achieved
a
direct,
positive
result
on shareholder value by driving performance in three key areas:
Increasing Return
on Invested Capital
Expanding Margins
Managing for Cash
Flow
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April 2014
Focus
on
Driving
Shareholder
Value.
Strong
long-term
stock
performance

combined
with

a
history of increasing dividends and share buybacks

2013

Operating
Performance.

Significant
improvement
through

a
renewed

focus

on
margin

expansion, cash generation and ROIC

With no acquisitions in 2013, free cash flow was returned to shareholders in the form of dividends and share repurchases

Announced in January 2014 an accelerated share repurchase program to repurchase 11.4 million shares

Solid Performance and Return of Capital
to Shareholders

Strong Total Shareholder Return in 2013

Increase in Dividend Payments

4

\$50

\$60

\$70

\$80

\$90

\$100

\$0.38

\$0.42

\$0.47

\$0.51

\$0.56

\$0.62

2009

2010

2011

2012

2013

2014

April 2014

Shareholder Outreach and Response to
2013 Say on Pay Vote

In response to our say on pay vote, our Compensation Committee Chair
and
members
of
the
management
team

engaged
directly
with
several
of
our
largest shareholders and took action in response to address feedback
Shareholder Feedback
Company Response
Lengthen
the performance measurement period for the
performance-based long-term incentives to more than one
year
Performance Restricted Stock Units (PRSUs) will be subject to a three-
year performance period, instead of a one-year period starting with 2015
grants
Focus
on the alignment of compensation with company
performance and shareholder value drivers
Implemented and disclosed scorecards for each NEO with specific,
measurable goals used to drive compensation
Demonstrate
a link between executive compensation and
performance, and how performance metrics relate to total
shareholder return
Enhanced CD&A disclosure to show the connection between the
program's structure and performance (primarily through the use of equity),
and by disclosing realizable pay relative to company stock performance
Disclose
realizable
pay
to
help
shareholders
better
understand the alignment of compensation with company
performance
Added new disclosure showing 3-year realizable pay for the CEO,
demonstrating that the program closely aligns executive compensation
with company performance
Clarify
disclosure
regarding
specific
components
of
the
program
New CD&A disclosure that more clearly discusses each component of
compensation and the well-disciplined process used to set and grant

compensation

Carefully

consider

shareholder

dilution

and

annual

burn

rate

when granting equity compensation

Given the company's higher use of equity based compensation relative to other companies, the dilution and burn rate is generally slightly higher on a relative basis. The Committee believes this use of equity more closely links executive and shareholder interests

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April 2014
Compensation Structure Linking Pay to
Performance
Annual Incentives
Long-Term Incentives
Short Term Pay
Long Term Pay
Cash
Performance RSUs (25%)
Restricted Stock (25%)

Stock Options (50%)
Base Salary
Cash
Key
Elements of
Pay
Performance
Metrics
Affecting
Ultimate Value
Fixed
compensation
to attract and
retain NEOs
Earnings from Continuing
Operations
Sales
Business Group
Performance
Free Cash Flow from
Operations
Stock Price
Indexed to Total Cash
Compensation
Return on Invested Capital
(Moving to 3-Year Measurement)
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April 2014

Aligning Pay with Performance During
Our Senior Leadership Transition

Phebe Novakovic became CEO in 2013 and began building her management team; SVP and CFO

L. Hugh Redd retired on Dec. 31, 2013 as part of this transition

Mr. Redd served through all of 2013 but was not employed by the company in March 2014, which is
when 2013 long-term incentive awards were granted in recognition of 2013 and prior years

performance

Executives

not

employed
at
the
company
at
the
time
equity
grants
are
made
are
not
entitled
to
such
grants

To compensate Mr. Redd for agreeing to retire on Dec. 31, precluding his receipt of an equity grant in 2014, the company agreed to provide a pension service credit

The \$2 million incremental value of the service credit approximately correlates to the estimated amount of the grant date value of the equity compensation that Mr. Redd would have been entitled to had he remained with the company, given his bonus and salary

The Compensation Committee believes this form of compensation links Mr. Redd's pay with performance, while recognizing his willingness to support the leadership transition

The company has not provided service credits to any other current executive officers. In light of concerns raised about the use of pension service credits, the company will not provide service credits to any named executive officers going forward

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April 2014

Strong, Independent Compensation

Governance and Practices

100% independent Compensation Committee

Independent compensation consultant reporting to the Compensation Committee

Strong link between pay and performance with 92% of CEO and 81% of NEO compensation variable

Market-leading stock ownership requirements of 15x base salary for CEO and 10x for the other NEOs

No employment agreements with NEOs

Double-trigger change-in-control arrangements

Adopted a clawback policy

Anti-hedging policy in place and adopted anti-pledging policy

Limited perquisites

Eliminated excise tax gross-ups

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April 2014

Balanced Board Tenure and Sound
Governance Practices

Director Tenure

We have a well-balanced board with
a mix of long-term experience and
fresh perspective, each with a
diverse range of backgrounds, talent,
skill and expertise that are valuable
in the board's responsibility and

oversight role
100% committee independence
Right to call special meetings (10%
individual; 25% group of
shareholders)
Action by written consent
Robust independent lead director
role
Majority voting
Annual elections
No poison pill in place
Qualified directors with a deep
understanding of the company's core
business areas and complex issues
and risks facing public company
boards
Governance Practices
5
Directors
4
Directors
9
3
Directors