

GENERAL DYNAMICS CORP

Form 11-K

June 27, 2007

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 11-K**

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)**  
**For the fiscal year ended December 31, 2006**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)**

**For the transition period from            to**

**Commission file number 1-3671**

A. **Full title of the plan and the address of the plan, if different from that of the issuer named below:**

**GENERAL DYNAMICS CORPORATION**

**SAVINGS AND STOCK INVESTMENT PLAN**

B. **Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:**

**GENERAL DYNAMICS CORPORATION**

**2941 Fairview Park Drive, Suite 100**

**Falls Church, Virginia 22042-4513**

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**GENERAL DYNAMICS CORPORATION**  
**SAVINGS AND STOCK INVESTMENT PLAN**  
**Index of Financial Statements and Exhibit**

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**Report of Independent Registered Public Accounting Firm**

To the Participants in and Administrator of the General Dynamics Corporation Savings and Stock Investment Plan:

We have audited the accompanying statements of net assets available for benefits of the General Dynamics Corporation Savings and Stock Investment Plan (the Plan) as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

McLean, Virginia

June 27, 2007

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**GENERAL DYNAMICS CORPORATION**  
**SAVINGS AND STOCK INVESTMENT PLAN**

Statements of Net Assets Available for Benefits

December 31, 2006 and 2005

	<b>2006</b>	<b>2005</b>
<b>Assets:</b>		
Investments in Master Trust at fair value (note 4)	\$ 4,322,895,692	3,378,832,211
Investments in Master Trust at contract value (notes 6 and 7)	1,585,813,292	1,663,455,496
Participant loans held in the Master Trust (note 4)	81,212,568	74,385,702
Contributions receivable employer	23,800,123	34,643,100
Other assets		221,027
<b>Total assets</b>	<b>6,013,721,675</b>	<b>5,151,537,536</b>
<b>Liabilities:</b>		
Accrued administrative expenses	628,250	788,086
<b>Net assets available for benefits</b>	<b>\$ 6,013,093,425</b>	<b>5,150,749,450</b>

See accompanying notes to financial statements.

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**SAVINGS AND STOCK INVESTMENT PLAN**

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2006

Additions to net assets attributed to:	
Participation in income of Master Trust (note 4)	\$ 835,525,792
Transfers in from other plans	11,194,530
Contributions:	
Participant	287,682,249
Employer	142,459,270
	430,141,519
Total additions	1,276,861,841
Deductions from net assets attributed to:	
Benefits paid to participants	411,094,896
Administrative expenses	3,422,970
Total deductions	414,517,866
Net increase	862,343,975
Net assets available for benefits:	
Beginning of year	5,150,749,450
End of year	\$ 6,013,093,425

See accompanying notes to financial statements.

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**GENERAL DYNAMICS CORPORATION**  
**SAVINGS AND STOCK INVESTMENT PLAN**

Notes to Financial Statements

December 31, 2006 and 2005

**(1) Plan Description**

The following description of the General Dynamics Corporation Savings and Stock Investment Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

**(a) General**

The Plan is a defined contribution plan covering eligible salaried employees of General Dynamics Corporation (the Company or the Plan Sponsor). The Plan is one of two plans that comprise the General Dynamics Corporation Savings and Stock Investment Plan Master Trust (Master Trust). The Plan Document was revised effective January 1, 2006, with all prior statutory requirements carried forward in the Plan. The 2006 revisions did not significantly impact the Plan. Prior to January 1, 2007, substantially all salaried employees of the Company were eligible to participate in the Plan immediately upon hire, except those whose employment is governed by a collective bargaining agreement where retirement benefits were the subject of good faith bargaining. (See discussion of subsequent events in Note 11.) The Company is the Plan Sponsor and the Plan Administrator. In July 2006, the Itronix Corporation 401(k) Savings Plan (the Itronix Plan) and the Tadpole Computer, Inc. 401(k) Profit Sharing Plan (the Tadpole Plan) merged into the Plan. Total assets transferred from these plans were \$11,194,530.

**(b) Plan Administration**

The Northern Trust Company (TNT) holds the Plan's assets as the Plan's trustee. Hewitt Associates, LLC (Hewitt) is the Plan's recordkeeper.

**(c) Contributions**

Participant contribution percentages vary based on the business unit with whom the participant is employed. Contribution percentages range from 1 percent to 50 percent of eligible compensation on a pre-tax basis, up to the statutory limits. Participants should refer to the Plan document for a more complete description of the allowable contribution percentages.

Most Company Matching Contributions made to the Plan are invested in the Company's common stock; however, at certain business units the Company match follows the participant's election. The match amount varies based on the business unit with whom the participant is employed. At some business units, participants that are eligible for the Company's Matching Contribution and invest 100 percent of their contribution in the General Dynamics Stock Fund, receive a Company Matching Contribution equal to 100 percent of their contribution to the General Dynamics Stock Fund, per limits defined in the Plan. Participants that are eligible for the Company Matching Contribution, but invest less than 100 percent in the General Dynamics Stock Fund, receive a 50 percent Company Matching Contribution in the General Dynamics Stock Fund, per limits defined in the Plan.

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During 2005, the plan provisions were amended to increase the employer contribution for certain participants. Participants at certain business units receive an employer contribution based on a profit sharing formula. Participants that do not accrue credited service under a Company-sponsored defined benefit pension plan may be eligible to receive an employer contribution based on a percentage of their eligible compensation. At December 31, 2006, \$23,800,123 of such profit sharing contributions were included as a receivable in the financial statements.

***(d) Participant Accounts***

Each participant directs his or her contributions to be invested in various funds. Changes to investment elections can be made according to rules set by the Plan Administrator. Each participant's account is credited with allocations of (a) his or her pre-tax contributions, (b) the Company's contributions, and (c) the earnings on account balances. The benefit to which a participant is entitled is the vested balance of his or her account.

***(e) Vesting***

Participants are eligible to participate in the Plan upon hire, and participants' contributions vest immediately. Vesting in the Company's contribution portion of participants' accounts is based on years of continuous service. Although the time required for vesting varies based on the business unit with whom the participant is employed, all participants are 100 percent vested after three years of continuous service. At some business units, contributions invested in the General Dynamics Stock Fund must be maintained in that fund for five years before becoming eligible for transfer to any other fund. These are classified as non-participant-directed investments. With the exception of the General Dynamics Stock Fund, all investment funds are participant directed.

***(f) Participant Loans***

The Plan permits active participants and employed inactive participants to borrow the lesser of \$50,000 or 50 percent of the vested amount in their accounts (as limited by the Plan and the Internal Revenue Code (IRC)). Participants are permitted to repay the loan by regular payroll deductions over a period of up to five years. Loans are issued at the prime rate of interest. The Plan also offers primary residence loans (up to 20 years), which are secured by the balance in the participants' account. Participant loans outstanding at December 31, 2006 bear interest at rates that range from 4.0 percent to 10.5 percent.

***(g) Payment of Benefits***

On termination of service due to death, disability, or retirement, a participant (or designated beneficiary) may elect to (a) receive a lump-sum amount equal to the value of the participant's vested interest in his or her account, (b) roll over the value of the participant's vested interest in his or her account into another qualified plan, (c) receive annual installment payments over a specified period or specified amounts, or (d) receive a partial distribution of the participant's total account balance. Participants may also receive hardship withdrawals under the provisions of the IRC in a lump-sum payment. Active participants are eligible to receive in-service, hardship, or age 59 1/2 withdrawals.

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Notes to Financial Statements

December 31, 2006 and 2005

**(h) Forfeited Accounts**

During the year ended December 31, 2006, participants forfeited nonvested accounts totaled \$4,433,526. These amounts were used to reduce employer contributions.

**(i) Administrative Expenses**

The Master Trust generally pays the administrative expenses of the Plan. The plan document provides that the Company may reimburse the Plan for administrative expenses. The Company did not reimburse any administrative expenses in 2006 or 2005.

Company employees perform certain administrative functions that are not reimbursed by the Master Trust. The plan document provides that the Company is entitled to reimbursement for certain costs incurred on behalf of the Plan. The Company did not seek reimbursement for these costs in 2006 or 2005.

Administrative expenses may be specifically identified to the two plans that participate in the Master Trust or these expenses may be attributable to the Master Trust in general. Specifically identified fees of the Plan for 2006 were \$3,422,970, and are reflected as administrative expenses in the Statement of Changes in Net Assets Available for Benefits. General expenses (primarily investment management and trustee fees) of the Master Trust in 2006 were \$1,583,047. A portion of these expenses is allocated to the Plan using the percentage of the Plan's interest in the net assets of the Master Trust. For the year ended December 31, 2006, approximately \$1,346,000 of general expenses related to the Plan were included as a reduction of participation in the net income of the Master Trust.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The accompanying financial statements are prepared under the accrual basis of accounting.

**(b) Investment Valuation and Income Recognition**

The Plan's investments are stated at fair value using the quoted market price of the underlying assets (see note 6). Common collective trusts are valued at net unit value. Participant loans are valued based on the remaining unpaid principal balance plus any accrued but unpaid interest. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

**(c) Payment of Benefits**

Benefits are recorded when paid.



*(d) Use of Estimates*

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts

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**GENERAL DYNAMICS CORPORATION**  
**SAVINGS AND STOCK INVESTMENT PLAN**

Notes to Financial Statements

December 31, 2006 and 2005

of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**(e) Reclassifications**

Certain prior-year amounts have been reclassified to conform to current-year presentation.

**(3) Tax Status**

The Internal Revenue Service (IRS) issued a favorable determination letter on March 27, 2006, indicating that the Plan is a qualified profit-sharing plan under Section 401(a) of the IRC. The Plan is exempt from federal income tax under Section 501(a) of the IRC. Although the Plan has been amended subsequent to the date of the latest determination from the IRS, the Plan Administrator and the Plan's tax counsel believe the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC.

**(4) Investments**

The Plan's investments are held by the Master Trust, which was established for the investment of the Plan's assets and the assets of the General Dynamics Corporation Hourly Employees Savings and Stock Investment Plan (collectively, the Plans). Each of the Plans has an undivided interest in the Master Trust.

At December 31, 2006 and 2005, the Plan's interest in the net assets of the Master Trust was approximately 85 percent. Net assets and net participation in the net income of the Master Trust are allocated to the Plans according to their percentage interest in the Master Trust.

TNT uses a portion of the Master Trust's investments to engage in securities lending. The securities on loan and related collateral are valued daily to ensure adequate collateralization levels in relation to the securities on loan. The loaned security is delivered to the borrower, and collateral is received by TNT either simultaneously or in advance of security delivery. The total market value of collateralized securities on loan from the Master Trust at December 31, 2006 and 2005 was \$645,491,756 and \$1,247,042,666, respectively. Net income generated for the Master Trust from securities lending activities for the year ended December 31, 2006 was \$1,127,717.

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**GENERAL DYNAMICS CORPORATION**  
**SAVINGS AND STOCK INVESTMENT PLAN**

Notes to Financial Statements

December 31, 2006 and 2005

The following table presents the reported value of investments for the Master Trust as of December 31, 2006 and 2005:

	2006	2005
General Dynamics Corporation common stock+	\$ 2,539,712,126	1,800,780,102
Guaranteed Investment Contracts (GICs)*	1,873,040,330	2,003,370,844
Units of common collective trust, fair value	1,688,868,243	1,577,759,462
Investments in registered investment companies	494,563,767	204,712,514
Investments in fixed income securities*	345,097,316	336,070,728
Participant loans	109,138,305	100,366,656
Cash and cash equivalents, and other	97,583,329	57,163,667
Securities on loan	645,491,756	1,247,042,666
<b>Total assets</b>	<b>7,793,495,172</b>	<b>7,327,266,639</b>
Pending trade sales/purchases, net	78,137,531	18,726,804
Liability for collateral deposits	661,350,083	1,276,427,425
<b>Total liabilities</b>	<b>739,487,614</b>	<b>1,295,154,229</b>
<b>Total investments of Master Trust</b>	<b>\$ 7,054,007,558</b>	<b>6,032,112,410</b>

+ The General Dynamics Stock Fund consists of \$2,539,712,126 and \$1,800,780,102 of General Dynamics common stock and \$28,867,827 and \$35,545,136 of cash equivalents at December 31, 2006 and 2005, respectively.

\* Balance contains collateral on loaned securities in the amount of \$569,422,355 and \$1,112,485,773 for GICs and \$91,927,728 and \$163,941,652 for

fixed-income securities at December 31, 2006 and 2005, respectively.

The Plans' interests in the Master Trust's total investment at December 31, 2006 and 2005 were as follows:

	2006	2005
General Dynamics Corporation Savings and Stock Investment Plan	\$ 5,989,921,552	5,116,673,409
General Dynamics Corporation Hourly Employees Savings and Stock Investment Plan	1,064,086,006	915,439,001
<b>Total</b>	<b>\$ 7,054,007,558</b>	<b>6,032,112,410</b>



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**SAVINGS AND STOCK INVESTMENT PLAN**

Notes to Financial Statements

December 31, 2006 and 2005

Net investment income for the Master Trust for the year ended December 31, 2006 consisted of the following:

Appreciation of General Dynamics Corporation common stock	\$ 568,358,398
Appreciation of investments in common collective trusts	236,874,191
Appreciation of investments in registered investment companies	43,777,451
Depreciation of investments in fixed-income securities	(2,093,319)
Interest	111,015,958
Dividends	36,099,913
Net interest earned on securities lending transactions	1,127,717
Administrative expenses	(1,583,047)
	<b>\$ 993,577,262</b>

The Plans' interests in the Master Trust's investment income for the year ended December 31, 2006 were as follows:

General Dynamics Corporation Savings and Stock Investment Plan	\$ 835,525,792
General Dynamics Corporation Hourly Employees Savings and Stock Investment Plan	158,051,470
<b>Total</b>	<b>\$ 993,577,262</b>

The Master Trust's investments that represent 5 percent or more of the Master Trust's beginning net assets as of January 1, 2006 and 2005 were as follows:

	2006	2005
General Dynamics Corporation common stock	\$ 2,539,712,126	1,800,780,102
Guaranteed investment contracts:		
Met Life 25154	936,654,102	973,130,735
Met Life 25155	913,487,010	992,983,213
Investments in common collective trusts:		
MFB NTGI QM COLTV DAILY S&P 500 EQTY	1,541,283,434	1,419,180,955

Five percent of the Master Trust's beginning net assets were \$303,295,077 and \$287,819,796 as of January 1, 2006 and 2005, respectively.

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**GENERAL DYNAMICS CORPORATION**

**SAVINGS AND STOCK INVESTMENT PLAN**

Notes to Financial Statements

December 31, 2006 and 2005

**(5) Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. In the event the Plan is terminated, each participant will automatically become vested in his or her unvested Company contributions. Each participant will receive payments based on the specific dollar amounts and shares of the Company's common stock in his or her account.

**(6) Investment Contracts with Insurance Companies**

Most investments held by the Master Trust are recorded at quoted market value as stated on public exchanges. As of December 31, 2006 and 2005, the GICs included in the Master Trust were reported at contract value because they have been determined to be fully benefit responsive (i.e., participants may direct the withdrawal or transfer of all or a portion of their investment at contract value). There are no reserves against contract value for credit risk of the contract issuers or other matters. The contract values of the GICs are presented excluding the effect of any loaned securities and include accrued interest/expense. The contract value of the GICs at December 31, 2006 and 2005 was \$1,859,391,867 and \$,977,735,474, respectively, as compared to the fair value of \$1,859,851,806 and \$1,988,323,716, respectively. The average yield and crediting interest rates ranged from 2.93 percent to 12.30 percent for 2006 and 2005. The crediting interest rate is based on a formula agreed with the contract issuer, but may not be less than zero. Such interest rates are reviewed by the investment manager on a quarterly basis for resetting.

**(7) Derivative Financial Instruments**

To reduce interest rate risk, the Master Trust has entered into U.S. Treasury and Agency Bond futures contracts. These futures contracts serve to match the price sensitivity and duration of the Master Trust assets with the duration of various benchmarks of the Master Trust. The futures contracts the Master Trust generally enters into are contracts to purchase U.S. Treasury or Agency Bonds, Notes, or Bills at a fixed price on a set date in the future, generally during the next three to six months. The Master Trust pays or receives cash daily for changes in market price of these instruments, with gains or losses reflected in investment income. Total mark-to-market loss was approximately \$352,000 for the year ending December 31, 2006. The Master Trust had no derivative instruments designated as cash flow or fair value hedges during 2006 or 2005.

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Notes to Financial Statements

December 31, 2006 and 2005

**(8) Non-participant-Directed Investments**

The net assets and the significant components of the changes in net assets relating to the non-participant-directed investments of the Plan as of and for the year ended December 31, 2006 were as follows:

General Dynamics Stock Fund, beginning of year	\$ 1,504,455,736
Change in net assets:	
Participation in income of the Master Trust	485,605,421
Participants' contributions	125,379,695
Employer's contributions	63,896,028
Distributions to participants	(111,525,935)
Interfund transfers	6,464,033
Net increase	569,819,242
General Dynamics Stock Fund, end of year	\$ 2,074,274,978

**(9) Party-in-Interest Transactions**

The Plan may, at the discretion of the Plan's participants or via the Company match, invest through the Master Trust an unlimited amount of its assets in the Company's common stock. The Master Trust held 34,182,433 and 31,592,902 shares of the Company's common stock as of December 31, 2006 and 2005, respectively. Dividends earned by the Master Trust on the Company's common stock were \$29,442,391 for the year ended December 31, 2006.

On March 1, 2006, the Company's board of directors authorized a two-for-one stock split, which was effected in the form of a 100 percent stock dividend distributed on March 24, 2006, to shareholders of record at the close of business on March 13, 2006. The above share data has been restated to reflect the stock split.

The Plan also invests through the Master Trust in the COLTV Short-Term Investment Fund, the COLTV Daily S&P 500 Equity Fund, and the COLTV Daily Russell 2000 Fund. These funds are managed by TNT, a party-in-interest to the Plan. The following table summarizes the shares held by the Master Trust in these funds at December 31, 2006 and 2005:

	2006	2005
COLTV Short-Term Investment Fund	90,168,337	53,660,442
COLTV Daily S&P 500 Equity Fund	401,180	428,029
COLTV Daily Russell 2000 Fund	160,685	160,685

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**GENERAL DYNAMICS CORPORATION**  
**SAVINGS AND STOCK INVESTMENT PLAN**

Notes to Financial Statements

December 31, 2006 and 2005

The following table summarizes the interest earned and realized gains recognized by the Master Trust on these funds for the year ended December 31, 2006:

COLTV Short-Term Investment Fund	\$ 4,828,907
COLTV Daily S&P 500 Equity Fund	42,950,660
COLTV Daily Russell 2000 Fund	

**(10) Reconciliation of Financial Statements to Form 5500**

Benefit requests that have been processed and approved for payment prior to December 31, 2006 but not yet paid as of that date are not reported in the financial statements until the subsequent year but are included in amounts allocated to withdrawing participants on the Form 5500 for 2006.

The following is a reconciliation of net assets available for benefits at December 31, 2006 and 2005 as reported in the financial statements to the Form 5500:

	2006	2005
Net assets available for benefits as reported in the financial statements	\$ 6,013,093,425	5,150,749,450
Amounts allocated to withdrawing participants	(3,964,744)	(1,710,279)
Net assets available for benefits as reported in the Form 5500	\$ 6,009,128,681	5,149,039,171

The following is a reconciliation of benefits paid to participants for the year ended December 31, 2006 as reported in the financial statements to the Form 5500:

Benefits paid to participants as reported in the financial statements	\$ 411,094,896
Amounts allocated to withdrawing participants at December 31, 2006	3,964,744
Amounts allocated to withdrawing participants at December 31, 2005	(1,710,279)
Benefits paid to participants as reported in the Form 5500	\$ 413,349,361

**(11) Subsequent Events**

Effective January 1, 2007, the Plan was renamed the General Dynamics Corporation Savings and Stock Investment Plan (Plan 3.0) (the SSIP 3.0).



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As part of a plan restructuring effective January 1, 2007, two new defined contribution plans were adopted. These are the General Dynamics Corporation Savings and Stock Investment Plan (Plan 4.5) (the SSIP 4.5 ) and the General Dynamics Corporation Savings and Stock Investment Plan (Plan 5.0) (the SSIP 5.0 ). Participation in the SSIP 4.5 and SSIP 5.0 began on January 1, 2007 for certain participants. Company management made the business decision as to which employees would participate in which plans and the affected participants' account balances in the SSIP 3.0 were subsequently transferred to the corresponding new plan. On January 3, 2007, \$2,010,652,890 and \$1,934,074,411 were transferred from the SSIP 3.0 to the SSIP 4.5 and SSIP 5.0, respectively.

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Notes to Financial Statements

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The SSIP 4.5 has an employer match rate of up to 100 percent of the first 3 percent of eligible compensation deferred and 50 percent of the next 3 percent of eligible compensation deferred.

The SSIP 5.0 has an employer match rate of up to 100 percent of the first 4 percent of eligible compensation deferred and 50 percent of the next 2 percent of eligible compensation deferred.

Both plans may provide for the following design features:

Before-tax and after-tax contribution rates in the aggregate of up to 50 percent,

A new definition of eligible compensation that takes into account all regular cash compensation, including bonuses, overtime, shift differentials and similar items,

Automatic enrollment with a default before tax contribution rate, and

Immediate vesting of matching contributions made on post-January 1, 2007 employee deferrals.

In addition, effective January 1, 2007, all union employees ceased participation under this Plan and began participating under the General Dynamics Savings and Stock Investment Plan for Represented Employees (the SSIP Represented Plan), formerly the General Dynamics Corporation Hourly Employees Savings and Stock Investment Plan. On January 3, 2007, affected participants' account balances in the amount of \$318,249 were transferred from the Plan into the SSIP Represented Plan.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Plan Administrator has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

GENERAL DYNAMICS CORPORATION

As Plan Administrator of the General Dynamics  
Corporation Savings and Stock Investment Plan

By /s/ Henry C. Eickelberg  
Henry C. Eickelberg

Vice President, Human Capital Processes

Dated: June 27, 2007