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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 OR 15(d)
of The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) October 27, 2014

ALLISON TRANSMISSION HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-35456
(Commission
File Number)

26-0414014
(IRS Employer
Identification No.)

One Allison Way, Indianapolis, Indiana
(Address of principal executive offices)

46222
(Zip Code)

Registrant's telephone number, including area code (317) 242-5000

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On October 27, 2014, Allison Transmission Holdings, Inc. (“Allison”) published an earnings release reporting its financial results for the three months ended September 30, 2014. A copy of the earnings release is attached as Exhibit 99.1 hereto. Following the publication of the earnings release, Allison will host an earnings call on October 28, 2014 at 8:00 a.m. ET on which its financial results for the three months ended September 30, 2014 will be discussed. The investor presentation materials that will be used for the call are attached as Exhibit 99.2 hereto.

On October 27, 2014, Allison posted the materials attached as Exhibits 99.1 and 99.2 on its web site (www.allisontransmission.com).

As discussed on page 2 of Exhibit 99.2, the investor presentation contains forward-looking statements within the meaning of the federal securities laws. These statements are present expectations, and are subject to the limitations listed therein and in Allison’s other Securities and Exchange Commission filings, including that actual events or results may differ materially from those in the forward-looking statements.

The foregoing information (including the exhibits hereto) is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Earnings release dated October 27, 2014.
99.2	Investor presentation materials dated October 27, 2014.

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 hereunto duly authorized.

Allison Transmission Holdings, Inc.

Date: October 27, 2014

By: /s/ Eric C. Scroggins

Name: Eric C. Scroggins

Title: Vice President, General Counsel and Secretary

EXHIBIT INDEX

Exhibit
Number

Description

99.1	Earnings release dated October 27, 2014.
99.2	Investor presentation materials dated October 27, 2014.



Allison Transmission Announces Third Quarter 2014 Results

- **Net Sales \$553 million, Adjusted Net Income \$138 million, Adjusted EBITDA \$202 million, Adjusted Free Cash Flow \$159 million or \$0.88 per Diluted Share**

INDIANAPOLIS, October 27, 2014 – Allison Transmission Holdings Inc. (NYSE: ALSN), the largest global provider of commercial duty fully-automatic transmissions, today reported net sales for the quarter of \$553 million, a 19 percent increase from the same period in 2013. Adjusted Net Income, a non-GAAP financial measure, for the quarter was \$138 million, compared to Adjusted Net Income of \$101 million for the same period in 2013, an increase of \$37 million. Diluted earnings per share for the quarter were \$0.38, a 58 percent increase from the same period in 2013.

The increase in net sales was principally driven by the continued recoveries in the North America On-Highway and Off-Highway end markets, and higher demand in the Service Parts, Support Equipment & Other end market partially offset by previously contemplated reductions in U.S. defense spending.

Adjusted EBITDA, a non-GAAP financial measure, for the quarter was \$202 million, or 36.5 percent of net sales, compared to \$162 million, or 34.7 percent of net sales, for the same period in 2013. Adjusted Free Cash Flow, also a non-GAAP financial measure, for the quarter was \$159 million, or \$0.88 per diluted share, compared to \$116 million for the same period in 2013.

Lawrence E. Dewey, Chairman, President and Chief Executive Officer of Allison Transmission commented, “Our third quarter 2014 results exceed the full year guidance ranges we affirmed on July 23. Net sales improved on a year-over-year basis for the fourth consecutive quarter led by the continued recoveries in the North America On-Highway and Off-Highway end markets, and higher demand in the Service Parts, Support Equipment & Other end market partially offset by previously contemplated reductions in U.S. defense spending. We are also pleased with the strong operating margins, level of Adjusted Free Cash Flow and net leverage reduction while Allison continued to invest in growth opportunities. During the quarter, we continued our prudent and well-defined approach to capital allocation by paying a quarterly dividend of \$0.12 per share and repaying \$80 million of debt. Allison is updating its full year net sales guidance to an increase in the range of 7.5 to 9 percent year-over-year, incorporating the robust third quarter results and anticipated improvements in fourth quarter demand conditions in the North America On-Highway and Off-Highway end markets partially offset by lower demand in the Outside North America On-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets.”

Third Quarter Net Sales by End Market

End Market	Q3 2014 Net Sales (\$M)	Q3 2013 Net Sales (\$M)	% Variance
North America On-Highway	256	212	21%
North America Hybrid-Propulsion Systems for Transit Bus	23	15	53%
North America Off-Highway	30	9	233%
Defense	35	52	(33%)
Outside North America On-Highway	73	70	4%
Outside North America Off-Highway	18	16	13%
Service Parts, Support Equipment & Other	118	92	28%
Total Net Sales	553	466	19%

Third Quarter Highlights

North America On-Highway end market net sales were up 21 percent from the same period in 2013 and up 5 percent on a sequential basis principally driven by higher demand for Rugged Duty Series models.

North America Hybrid-Propulsion Systems for Transit Bus end market net sales were up 53 percent from the same period in 2013 principally driven by intra-year movement in the timing of orders, and down 18 percent sequentially.

North America Off-Highway end market net sales were up 233 percent from the same period in 2013 and up 30 percent on a sequential basis principally driven by higher demand from hydraulic fracturing applications.

Defense end market net sales were down 33 percent from the same period in 2013 principally driven by previously considered reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts, and down 29 percent sequentially principally driven by the recognition of previously deferred revenue commensurate with the shipment of certain tracked transmissions at the request of the U.S. government in the second quarter of 2014.

Outside North America On-Highway end market net sales were up 4 percent from the same period in 2013 reflecting improved demand in all regions other than Europe, and up 18 percent on a sequential basis reflecting improved demand in China and Japan.

Outside North America Off-Highway end market net sales were up 13 percent from the same period in 2013 principally driven by improved demand in the China energy sector, and down 25 percent sequentially principally driven by weak demand from the mining sector partially offset by improved demand in the China energy sector.

Service Parts, Support Equipment & Other end market net sales were up 28 percent from the same period in 2013 and up 10 percent on a sequential basis principally driven by higher demand for North America service parts, and global On-Highway support equipment commensurate with increased transmission unit volumes.

Gross profit for the quarter was \$259 million, an increase of 26 percent from \$206 million for the same period in 2013. Gross margin for the quarter was 46.9 percent, an increase of 270 basis points from a gross margin of 44.2 percent for the same period in 2013. The increase in gross profit from the same period in 2013 was principally driven by increased net sales and price increases on certain products partially offset by higher manufacturing expense commensurate with increased sales.

Selling, general and administrative expenses for the quarter were \$88 million, an increase of 18 percent from \$74 million for the same period in 2013, principally driven by favorable product warranty expense adjustments in 2013 and increased global commercial spending activities.

Engineering – research and development expenses for the quarter were \$25 million, an increase of 17 percent from \$21 million for the same period in 2013, principally driven by increased product initiatives spending.

Third Quarter Non-GAAP Financial Measures

Adjusted EBITDA for the quarter was \$202 million, or 36.5 percent of net sales, compared to \$162 million, or 34.7 percent of net sales, for the same period in 2013. The increase in Adjusted EBITDA from the same period in 2013 was principally driven by increased net sales and price increases on certain products partially offset by higher manufacturing expense, favorable product warranty expense adjustments in 2013, increased global commercial spending activities and increased product initiatives spending.

Adjusted Net Income for the quarter was \$138 million compared to \$101 million for the same period in 2013. The increase was principally driven by increased Adjusted EBITDA.

Adjusted Free Cash Flow for the quarter was \$159 million compared to \$116 million for the same period in 2013. The increase was principally driven by increased net cash provided by operating activities.

Full Year 2014 Guidance Update

Our updated full year 2014 guidance includes a year-over-year net sales increase in the range of 7.5 to 9 percent, an Adjusted EBITDA margin excluding technology-related license expenses in the range of 33.5 to 35 percent, an Adjusted Free Cash Flow in the range of \$445 to \$470 million, capital expenditures in the range of \$60 to \$70 million and cash income taxes in the range of \$10 to \$15 million.

In the fourth quarter of 2014, Allison expects net sales to be higher than the same period in 2013. The anticipated year-over-year increase in fourth quarter net sales is expected to be principally driven by higher demand in the North America On-Highway and Off-Highway end markets partially offset by lower demand in the Outside North America On-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets.

Conference Call and Webcast

The company will host a conference call at 8:00 a.m. ET on Tuesday October 28 to discuss its third quarter 2014 results. Dial-in number is 1-201-689-8470 and the U.S. toll-free dial-in number is 1-877-407-9039. A live webcast of the conference call will also be available online at <http://ir.allisontransmission.com>.

For those unable to participate in the conference call, a replay will be available from 11:00 a.m. ET on October 28 until 11:59 p.m. ET on November 4. The replay dial-in number is 1-858-384-5517 and the U.S. toll-free replay dial-in number is 1-877-870-5176. The replay passcode is 13592697.

About Allison Transmission

Allison Transmission (NYSE: ALSN) is the world's largest manufacturer of fully automatic transmissions for medium- and heavy-duty commercial vehicles and is a leader in hybrid-propulsion systems for city buses. Allison transmissions are used in a variety of applications including refuse, construction, fire, distribution, bus, motorhomes, defense and energy. Founded in 1915, the company is headquartered in Indianapolis, Indiana, USA and employs approximately 2,700 people worldwide. With a market presence in more than 80 countries, Allison has regional headquarters in the Netherlands, China and Brazil with manufacturing facilities in the U.S., Hungary and India. Allison also has approximately 1,400 independent distributor and dealer locations worldwide. For more information, visit allisontransmission.com.

Forward-Looking Statements

This press release contains forward-looking statements. All statements other than statements of historical fact contained in this press release are forward-looking statements, including all statements regarding future financial results. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plans," "project," "anticipate," "believe," "estimate," "predict," "intend," "forecast," "could," "potential," "continue" or the negative of these terms or other similar terms or phrases. Forward-looking statements are not guarantees of future performance and involve known and unknown risks. Factors which may cause the actual results to differ materially from those anticipated at the time the forward-looking statements are made include, but are not limited to: risks related to our substantial indebtedness; our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; the failure of markets outside North America to increase adoption of fully-automatic transmissions; the concentration of our net sales in our top five customers and the loss of any one of these; future reductions or changes in government subsidies for hybrid vehicles, U.S. defense spending; general economic and industry conditions; the discovery of defects in our products, resulting in delays in new model launches, recall campaigns and/or increased warranty costs and reduction in future sales or damage to our brand and reputation; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; risks associated with our international operations; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers; and other risks and uncertainties associated with our business described in our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that the expectations will be attained or that any deviation will not be material. All information is as of the date of this press release, and we undertake no obligation to update any forward-looking statement to conform the statement to actual results or changes in expectations.

Use of Non-GAAP Financial Measures

This press release contains information about Allison's financial results which are not presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Such non-GAAP financial measures are reconciled to their closest GAAP financial measures at the end of this press release. Non-GAAP financial measures should not be considered in isolation or as a substitute for our reported results prepared in accordance with GAAP and, as calculated, may not be comparable to other similarly titled measures of other companies.

Attachment

- Condensed Consolidated Statements of Operations
- Condensed Consolidated Balance Sheets
- Condensed Consolidated Statements of Cash Flows
- Reconciliation of GAAP to Non-GAAP Financial Measures

Contacts

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Allison Transmission Holdings, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, dollars in millions, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net sales	\$ 553.3	\$ 466.3	\$ 1,583.0	\$ 1,435.8
Cost of sales	294.0	260.2	862.7	805.3
Gross profit	259.3	206.1	720.3	630.5
Selling, general and administrative expenses	87.5	74.0	255.8	247.5
Engineering—research and development	24.5	20.9	70.2	72.7
Operating income	147.3	111.2	394.3	310.3
Interest expense, net	(29.3)	(37.3)	(101.0)	(104.5)
Other expense, net	(1.7)	(1.5)	(3.0)	(7.2)
Income before income taxes	116.3	72.4	290.3	198.6
Income tax expense	(47.5)	(27.9)	(112.2)	(76.1)
Net income	<u>\$ 68.8</u>	<u>\$ 44.5</u>	<u>\$ 178.1</u>	<u>\$ 122.5</u>
Basic earnings per share attributable to common stockholders	\$ 0.38	\$ 0.24	\$ 0.99	\$ 0.66
Diluted earnings per share attributable to common stockholders	<u>\$ 0.38</u>	<u>\$ 0.24</u>	<u>\$ 0.97</u>	<u>\$ 0.65</u>

Allison Transmission Holdings, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, dollars in millions)

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 208.1	\$ 184.7
Accounts receivables—net of allowance for doubtful accounts of \$0.4 and \$0.4, respectively	240.0	175.1
Inventories	161.5	160.4
Deferred income taxes, net	103.8	58.1
Other current assets	29.5	28.6
Total Current Assets	742.9	606.9
Property, plant and equipment, net	526.7	563.4
Intangible assets, net	3,477.7	3,551.8
Deferred income taxes, net	1.0	1.1
Other non-current assets	75.9	89.4
TOTAL ASSETS	\$ 4,824.2	\$ 4,812.6
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 182.9	\$ 150.4
Current portion of long term debt	17.9	17.9
Other current liabilities	186.0	218.9
Total Current Liabilities	386.8	387.2
Long term debt	2,572.0	2,660.4
Other non-current liabilities	511.9	326.2
TOTAL LIABILITIES	3,470.7	3,373.8
TOTAL STOCKHOLDERS' EQUITY	1,353.5	1,438.8
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 4,824.2	\$ 4,812.6

Allison Transmission Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net cash provided by operating activities	\$ 174.0	\$ 131.0	\$ 416.0	\$ 315.4
Net cash used for investing activities (a)	(16.7)	(15.2)	(41.4)	(45.8)
Net cash used for financing activities	(84.5)	(190.0)	(357.6)	(207.7)
Effect of exchange rate changes in cash	8.6	(0.9)	6.4	10.2
Net increase (decrease) in cash and cash equivalents	81.4	(75.1)	23.4	72.1
Cash and cash equivalents at beginning of period	126.7	227.4	184.7	80.2
Cash and cash equivalents at end of period	<u>\$ 208.1</u>	<u>\$ 152.3</u>	<u>\$ 208.1</u>	<u>\$ 152.3</u>
Supplemental disclosures:				
Interest paid	\$ 34.7	\$ 33.3	\$ 103.3	\$ 112.9
Income taxes paid	\$ 0.4	\$ 0.5	\$ 3.5	\$ 3.5
(a) Additions of long-lived assets	\$ (14.9)	\$ (15.4)	\$ (37.6)	\$ (41.2)

Allison Transmission Holdings, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
(Unaudited, dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 68.8	\$ 44.5	\$ 178.1	\$ 122.5
plus:				
Interest expense, net	29.3	37.3	101.0	104.5
Cash interest expense	(34.7)	(33.3)	(103.3)	(112.9)
Income tax expense	47.5	27.9	112.2	76.1
Cash income taxes	(0.4)	(0.5)	(3.5)	(3.5)
Amortization of intangible assets	24.7	25.1	74.1	80.1
Impairment loss on technology-related investments (a)	2.0	—	2.0	2.5
Public offering expenses (b)	0.3	0.3	1.4	0.9
Adjusted net income	<u>\$137.5</u>	<u>\$101.3</u>	<u>\$ 362.0</u>	<u>\$ 270.2</u>
Cash interest expense	34.7	33.3	103.3	112.9
Cash income taxes	0.4	0.5	3.5	3.5
Depreciation of property, plant and equipment	23.6	24.4	71.0	74.1
Unrealized loss on foreign exchange (c)	2.0	1.8	3.4	2.3
Unrealized (gain) loss on commodity hedge contracts (d)	(0.6)	(0.8)	(1.7)	1.1
Restructuring charge (e)	—	—	0.7	1.0
Loss on redemptions and repayments of long-term debt (f)	0.3	0.5	0.3	0.5
Dual power inverter module extended coverage (g)	—	(2.4)	—	(2.4)
Other (h)	3.9	3.0	11.2	10.7
Adjusted EBITDA	<u>\$201.8</u>	<u>\$161.6</u>	<u>\$ 553.7</u>	<u>\$ 473.9</u>
Adjusted EBITDA excluding technology-related license expenses (i)	<u>\$201.8</u>	<u>\$161.6</u>	<u>\$ 557.0</u>	<u>\$ 479.9</u>
Net sales	\$553.3	\$466.3	\$1,583.0	\$1,435.8
Adjusted EBITDA margin	36.5%	34.7%	35.0%	33.0%
Adjusted EBITDA margin excluding technology-related license expenses (i)	36.5%	34.7%	35.2%	33.4%
Net Cash Provided by Operating Activities	\$174.0	\$131.0	\$ 416.0	\$ 315.4
(Deductions) or Additions to Reconcile to Adjusted Free Cash Flow:				
Additions of long-lived assets	(14.9)	(15.4)	(37.6)	(41.2)
Technology-related license expenses (i)	—	—	3.3	6.0
Adjusted Free Cash Flow	<u>\$159.1</u>	<u>\$115.6</u>	<u>\$ 381.7</u>	<u>\$ 280.2</u>

- (a) Represents a charge (recorded in Other expense, net) for investments in co-development agreements to expand our position in transmission technologies.
- (b) Represents fees and expenses (recorded in Other expense, net) related to our secondary offerings in September 2014, June 2014, April 2014, February 2014 and August 2013, and proposed secondary offering in April 2013.
- (c) Represents losses (recorded in Other expense, net) on the mark-to-market of our foreign currency hedge contracts and on intercompany financing transactions related to investments in plant assets for our India facility.
- (d) Represents unrealized (gains) losses (recorded in Other expense, net) on the mark-to-market of our commodity hedge contracts.
- (e) Represents a charge (recorded in Selling, general and administrative, and Engineering—research and development) related to employee headcount reductions in the second quarter of 2014 and second quarter of 2013.
- (f) Represents losses (recorded in Other expense, net) realized on the repayments of Allison Transmission, Inc.'s, our wholly owned subsidiary, long-term debt.
- (g) During the third quarter of 2013, we conducted a review of the Dual Power Inverter Module (“DPIM”) extended coverage program resulting in a reduction of the DPIM liability, partially offset by a reduction of the associated General Motors (“GM”) receivable totaling a net credit (recorded in Selling, general and administrative expenses). The total liability and GM receivable will continue to be reviewed for any changes in estimate as additional claims data and field information become available.
- (h) Represents employee stock compensation expense (recorded in Cost of sales, Selling, general and administrative expenses, and Engineering – research and development).
- (i) Represents payments (recorded in Engineering – research and development) for licenses to expand our position in transmission technologies.

Q3 2014 Earnings Release

Published October 27, 2014 (Earnings Conference Call October 28, 2014)

Lawrence Dewey, Chairman, President & Chief Executive Officer
David Graziosi, Executive Vice President & Chief Financial Officer



Safe Harbor Statement

The following information contains, or may be deemed to contain, “forward-looking statements” (as defined in the U.S. Private Securities Litigation Reform Act of 1995). The words “believe,” “expect,” “anticipate,” “intend,” “estimate” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although forward-looking statements reflect management’s good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to: risks related to our substantial indebtedness; our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; the failure of markets outside North America to increase adoption of fully-automatic transmissions; the concentration of our net sales in our top five customers and the loss of any one of these; future reductions or changes in government subsidies for hybrid vehicles; U.S. defense spending; general economic and industry conditions; the discovery of defects in our products, resulting in delays in new model launches, recall campaigns and/or increased warranty costs and reduction in future sales or damage to our brand and reputation; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; risks associated with our international operations; and labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers.

Allison Transmission cannot assure you that the assumptions made in preparing any of the forward-looking statements will prove accurate or that any long-term financial goals will be realized. All forward-looking statements included in this presentation speak only as of the date made, and Allison Transmission undertakes no obligation to update or revise publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise. In particular, Allison Transmission cautions you not to place undue weight on certain forward-looking statements pertaining to potential growth opportunities, long-term financial goals or the value we currently ascribe to certain tax attributes set forth herein. Actual results may vary significantly from these statements.

Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2013.



Non-GAAP Financial Information

We use Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow to evaluate our performance relative to that of our peers. In addition, the Senior Secured Credit Facility has certain covenants that incorporate Adjusted EBITDA. However, Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow are not measurements of financial performance under GAAP, and these metrics may not be comparable to similarly titled measures of other companies. Adjusted net income is calculated as the sum of net income (loss), interest expense, net, income tax expense (benefit), trade name impairment and amortization of intangible assets, less cash interest, net and cash income taxes, and adjusted for certain non-recurring items. Adjusted EBITDA is calculated as the sum of Adjusted net income, cash interest, net, cash income taxes, depreciation of property, plant and equipment and other adjustments as defined by the Senior Secured Credit Facility and as further described below. Adjusted EBITDA excluding technology-related license expenses is calculated as Adjusted EBITDA less technology-related license expenses. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales. Adjusted EBITDA margin excluding technology-related license expenses is calculated as Adjusted EBITDA excluding technology-related license expenses divided by net sales. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. Adjusted free cash flow is free cash flow adjusted for non-recurring items.

We use Adjusted net income to measure our overall profitability because it better reflects our cash flow generation by capturing the actual cash interest paid and cash taxes paid rather than our interest expense and tax expense as calculated under GAAP and excludes the impact of the non-cash annual amortization of certain intangible assets that were created at the time of the Acquisition Transaction. We use Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin and Adjusted EBITDA margin excluding technology-related license expenses to evaluate and control our cash operating costs and to measure our operating profitability. We use adjusted free cash flow and free cash flow to evaluate the amount of cash generated by the business that, after the capital investment needed to maintain and grow our business, can be used for strategic opportunities, including investing in our business and strengthening our balance sheet. We believe the presentation of Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses and adjusted free cash flow enhances our investors' overall understanding of the financial performance and cash flow of our business.

You should not consider Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow as an alternative to net income (loss), determined in accordance with GAAP, as an indicator of operating performance, or as an alternative to net cash provided by operating activities, determined in accordance with GAAP, as an indicator of Allison's cash flow.



Call Agenda

- **Q3 2014 Performance**
- **Full Year 2014 Guidance Update**



Q3 2014 Performance Summary

(\$ in millions)	Q3 2014	Q3 2013	% Variance
Net Sales	\$553	\$466	18.7%
Gross Margin %	46.9%	44.2%	+270 bps
Adjusted Net Income ⁽¹⁾	\$138	\$101	35.7%
Adjusted Free Cash Flow ⁽¹⁾	\$159	\$116	37.6%

Commentary

Net Sales: the increase was principally driven by the continued recoveries in the North America On-Highway and Off-Highway end markets, and higher demand in the Service Parts, Support Equipment & Other end market partially offset by previously contemplated reductions in U.S. defense spending.

Gross Margin: the increase was principally driven by increased net sales and price increases on certain products.

Adjusted Net Income: the increase was principally driven by increased net sales and price increases on certain products partially offset by higher manufacturing expense, favorable product warranty expense adjustments in 2013, increased global commercial spending activities and increased product initiatives spending.

Adjusted Free Cash Flow: the increase was principally driven by increased net cash provided by operating activities.

(1) See Appendix for a reconciliation of Adjusted Net Income and Adjusted Free Cash Flow.



Q3 2014 Sales Performance

(\$ in millions)

End Markets	Q3 2014	Q3 2013	% Variance	Commentary
North America On-Hwy	\$256	\$212	21%	Principally driven higher demand for Rugged Duty Series models
North America Hybrid-Propulsion Systems for Transit Bus	\$23	\$15	53%	Principally driven by intra-year movement in the timing of orders
North America Off-Hwy	\$30	\$9	233%	Principally driven by higher demand for hydraulic fracturing applications
Defense	\$35	\$52	(33%)	Principally driven by previously considered reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts
Outside North America On-Hwy	\$73	\$70	4%	Principally driven by improved demand in all regions other than Europe
Outside North America Off-Hwy	\$18	\$16	13%	Principally driven by improved demand in the China energy sector
Service Parts, Support Equipment & Other	\$118	\$92	28%	Principally driven by higher demand for North America service parts and global On-Highway support equipment
Total	\$553	\$466	19%	



Q3 2014 Financial Performance

(\$ in millions, except share data)	Q3 2014	Q3 2013	\$ Var	% Var	Commentary
Net Sales	\$553.3	\$466.3	\$87.0	18.7%	Increase was principally driven by the continued recoveries in the North America On-Highway and Off-Highway end markets, and higher demand in the Service Parts, Support Equipment & Other end market partially offset by previously contemplated reductions in U.S. defense spending
Cost of Sales	\$294.0	\$260.2	(\$33.8)	(13.0%)	
Gross Profit	\$259.3	\$206.1	\$53.2	25.8%	Increase principally driven by increased net sales and price increases on certain products partially offset by higher manufacturing expense commensurate with increased sales
Operating Expenses					
Selling, general and administrative expenses	\$87.5	\$74.0	(\$13.5)	(18.2%)	Increase principally driven by favorable product warranty expense adjustments in 2013 and increased global commercial activities
Engineering – research and development	\$24.5	\$20.9	(\$3.6)	(17.2%)	Increase principally driven by increased product initiatives spending
Total operating expenses	\$112.0	\$94.9	(\$17.1)	(18.0%)	
Operating Income	\$147.3	\$111.2	\$36.1	32.5%	
Interest Expense, net	(\$29.3)	(\$37.3)	\$8.0	21.4%	Decrease principally driven by the expiration of certain LIBOR swaps, lower amortization of deferred finance charges and debt repayments
Other Expense, net	(\$1.7)	(\$1.5)	(\$0.2)	(13.3%)	
Income Before Income Taxes	\$116.3	\$72.4	\$43.9	60.6%	
Income Tax Expense	(\$47.5)	(\$27.9)	(\$19.6)	(70.3%)	Change in effective tax rate principally driven by the change in discrete activity
Net Income	\$68.8	\$44.5	\$24.3	54.6%	
Diluted Earnings Per Share	\$0.38	\$0.24	\$0.14	58.3%	Q3 2014: 180.9M shares; Q3 2013: 188.0M shares
Adjusted EBITDA⁽¹⁾	\$201.8	\$161.6	\$40.2	24.9%	
Adjusted EBITDA excluding technology-related license expenses⁽¹⁾	\$201.8	\$161.6	\$40.2	24.9%	
Adjusted Net Income⁽¹⁾	\$137.5	\$101.3	\$36.2	35.7%	



(1) See Appendix for a reconciliation from Net Income.

Q3 2014 Cash Flow Performance

(\$ in millions)	Q3 2014	Q3 2013	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$174	\$131	\$43	32.8%	Principally driven by increased net sales
CapEx	\$15	\$15	\$0	(3.2%)	In line with prior year
Adjusted Free Cash Flow ⁽¹⁾	\$159	\$116	\$43	37.6%	Principally driven by increased cash provided by operating activities
(\$ in millions)	Q3 2014	Q3 2013	\$ Variance	% Variance	Commentary
Operating Working Capital ⁽²⁾ Percentage of LTM Sales	10.5%	10.4%	N/A	10 bps	In line with prior year
Cash Paid for Interest	\$35	\$33	\$2	4.2%	Principally driven by debt repayments and refinancing, and timing
Cash Paid for Income Taxes	\$1	\$1	\$0	0.0%	In line with prior year

(1) See Appendix for a reconciliation of Adjusted Free Cash Flow.

(2) Operating Working Capital = A/R + Inventory – A/P.



Full Year 2014 Guidance Update

	Guidance	Commentary
Net Sales Growth from 2013	7.5 to 9.0 percent	In the fourth quarter of 2014 we expect net sales to be higher than the same period in 2013. The anticipated year-over-year increase in fourth quarter net sales is expected to be principally driven by higher demand in the North America On-Highway and Off-Highway end markets partially offset by lower demand in the Outside North America On-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets
Adjusted EBITDA Margin <small>excluding technology-related license expenses</small>	33.5 to 35.0 percent	Principally driven by sales mix and timing
Adjusted Free Cash Flow <small>(\$ in millions)</small>	\$445 to \$470	\$2.46 to \$2.60 per diluted share
CapEx <small>(\$ in millions)</small> Maintenance New Product Programs	\$55 to \$60 \$5 to \$10	Subject to timely completion of development and sourcing milestones
Cash Income Taxes <small>(\$ in millions)</small>	\$10 to \$15	U.S. income tax shield and net operating loss utilization



APPENDIX

Non-GAAP Financial Information



Non-GAAP Reconciliations (1 of 2)

Adjusted Net Income and Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended September 30,		Last twelve months ended September 30,
	2009	2010	2011	2012	2013	2013	2014	2014
Net (loss) income	(\$323.9)	\$29.6	\$103.0	\$514.2	\$165.4	\$44.5	\$68.8	\$221.0
plus:								
Interest expense, net	234.2	277.5	217.3	151.2	132.9	37.3	29.3	129.4
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(159.2)	(33.3)	(34.7)	(149.6)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	100.7	27.9	47.5	136.8
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(3.8)	(0.5)	(0.4)	(3.8)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—	—
Technology-related investment expenses	—	—	—	14.4	5.0	—	2.0	4.5
Public offering expenses	—	—	—	6.1	1.6	0.3	0.3	2.1
Trade name impairment	190.0	—	—	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	105.3	25.1	24.7	99.3
Adjusted net income	\$49.6	\$273.7	\$305.4	\$375.9	\$347.9	\$101.3	\$137.5	\$439.7
Cash interest expense	242.5	239.1	208.6	167.3	159.2	33.3	34.7	149.6
Cash income taxes	5.5	2.2	5.8	10.7	3.8	0.5	0.4	3.8
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	98.7	24.4	23.6	95.6
(Gain)/loss on redemptions and repayments of long-term debt	(8.9)	(3.3)	16.0	22.1	0.8	0.5	0.3	0.6
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	(2.4)	(2.4)	—	—
UAW Local 933 signing bonus	—	—	—	8.8	—	—	—	—
Benefit plan re-measurement	—	—	—	2.3	—	—	—	—
Unrealized (gain) loss on commodity hedge contracts	(5.8)	0.3	6.5	(1.0)	1.5	(0.8)	(0.6)	(1.3)
Unrealized (gain) loss on foreign exchange	—	(0.2)	0.3	0.1	2.3	1.8	2.0	3.4
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—	—	—
Restructuring charges	47.9	—	—	—	1.0	—	—	0.7
Reduction of supply contract liability	—	(3.4)	—	—	—	—	—	—
Other, net ⁽¹⁾	53.2	10.9	8.6	7.0	13.8	3.0	3.9	14.3
Adjusted EBITDA	\$501.3	\$617.0	\$711.9	\$705.1	\$626.6	\$161.6	\$201.8	\$706.4
Adjusted EBITDA excluding technology-related license expenses	\$501.3	\$617.0	\$711.9	\$717.1	\$632.6	\$161.6	\$201.8	\$709.7
Net Sales	\$1,766.7	\$1,926.3	\$2,162.8	\$2,141.8	\$1,926.8	\$466.3	\$553.3	\$2,074.0
Adjusted EBITDA margin	28.4%	32.0%	32.9%	32.9%	32.5%	34.7%	36.5%	34.1%
Adjusted EBITDA margin excl technology-related license expenses	28.4%	32.0%	32.9%	33.5%	32.8%	34.7%	36.5%	34.2%

(1) Includes charges or income related to legacy employee benefits, shared income with General Motors, benefit plan adjustments, transitional costs to establish Allison as a stand-alone entity, pension curtailment adjustments, employee stock compensation expense, service fees paid to Allison's Sponsors and an adjustment for the settlement of litigation which originated with the Predecessor but was assumed by the Company as part of the Acquisition Transaction.



Non-GAAP Reconciliations (2 of 2)

Adjusted Free Cash Flow reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended September 30,		Last twelve months ended September 30,
	2009	2010	2011	2012	2013	2013	2014	2014
Net Cash Provided by Operating Activities (Deductions) or Additions:	\$168.7	\$388.9	\$469.2	\$497.5	\$453.5	\$131.0	\$174.0	\$554.1
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(74.4)	(15.4)	(14.9)	(70.8)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—	—
Technology-related license expenses	—	—	—	12.0	6.0	—	—	3.3
2009 Non-Recurring Activity ⁽¹⁾	61.0	—	—	—	—	—	—	—
Adjusted Free Cash Flow	\$141.5	\$315.1	\$372.3	\$401.6	\$385.1	\$115.6	\$159.1	\$486.6
Net Sales	\$1,766.7	\$1,926.3	\$2,162.8	\$2,141.8	\$1,926.8	\$466.3	\$553.3	\$2,074.0
Adjusted Free Cash Flow (% to Net Sales)	8.0%	16.4%	17.2%	18.8%	20.0%	24.8%	28.8%	23.5%

(1) 2009 adjusted for certain non-recurring activity: (a) capitalized accrued interest on Senior Toggle Notes (\$29) million, (b) cash restructuring charge \$51 million, (c) accounts payable early payments \$3 million, (d) delayed accounts receivable receipts \$19 million and (e) Lehman LIBOR swap settlement \$17 million.

