UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2012

OR

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

Commission File No. 001-35456

ALLISON TRANSMISSION HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**26-0414014**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

One Allison Way
Indianapolis, IN 46222
(Address of Principal Executive Offices and Zip Code)

(317) 242-5000
(Registrant’s Telephone Number, Including Area Code)

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, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

As of July 23, 2012, there were 181,374,598 shares of Common Stock and 1,185 shares of Non-voting Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Unaudited Condensed Consolidated Financial Statements

Allison Transmission Holdings, Inc.
Condensed Consolidated Balance Sheets
(unaudited, dollars in millions, except share data)

	June 30, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 112.1**	$ 314.0
Accounts receivable — net of allowance for doubtful accounts of $0.9 and $1.3, respectively	**234.8**	194.7
Inventories	**168.3**	155.9
Deferred income taxes, net	**30.9**	3.4
Other current assets	**31.7**	34.7
Total Current Assets	**577.8**	702.7
Property, plant and equipment, net	**581.3**	581.8
Intangible assets, net	**1,791.1**	1,866.1
Goodwill	**1,941.0**	1,941.0
Deferred income taxes, net	**88.4**	0.8
Other non-current assets	**84.4**	100.2
TOTAL ASSETS	**$ 5,064.0**	$ 5,192.6
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 186.2**	$ 162.6
Product warranty liability	**33.9**	33.9
Current portion of long-term debt	**8.0**	31.0
Notes payable	**—**	2.6
Deferred revenue	**20.2**	19.9
Other current liabilities	**161.3**	199.9
Total Current Liabilities	**409.6**	449.9
Product warranty liability	**77.2**	81.5
Deferred revenue	**43.4**	40.8
Long-term debt	**3,012.6**	3,345.0
Deferred income taxes	**0.0**	214.2
Other non-current liabilities	**237.4**	239.5
TOTAL LIABILITIES	**3,780.2**	4,370.9
Commitments and contingencies (see NOTE M)		
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value, 1,880,000,000 shares authorized, 181,398,298 issued and 181,374,598 outstanding	**1.8**	1.8
Non-voting common stock, $0.01 par value, 20,000,000 shares authorized, 1,185 issued and outstanding	**0.0**	0.0
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding	**—**	—
Treasury stock	**(0.2)**	(0.2)
Paid in capital	**1,564.3**	1,560.8
Accumulated deficit	**(223.8)**	(683.7)
Accumulated other comprehensive loss, net of tax	**(58.3)**	(57.0)
TOTAL STOCKHOLDERS' EQUITY	**1,283.8**	821.7
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**$ 5,064.0**	$ 5,192.6

The accompanying notes are an integral part of the condensed consolidated financial statements.

Allison Transmission Holdings, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(unaudited, dollars in millions, except share data)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net sales	**$ 559.4**	$ 555.7	**$ 1,161.3**	$ 1,072.7
Cost of sales	**307.5**	311.2	**625.6**	598.2
Gross profit	**251.9**	244.5	**535.7**	474.5
Selling, general and administrative expenses	**109.1**	96.7	**210.3**	197.6
Engineering — research and development	**23.2**	28.2	**51.1**	58.5
Operating income	**119.6**	119.6	**274.3**	218.4
Interest income	**0.3**	0.2	**0.6**	0.4
Interest expense	**(34.4)**	(71.2)	**(75.4)**	(121.0)
Premiums and expenses on tender offer for long-term debt	**—**	(56.9)	**—**	(56.9)
Other (expense) income, net	**(22.8)**	(2.9)	**(53.6)**	2.8
Income (loss) before income taxes	**62.7**	(11.2)	**145.9**	43.7
Income tax benefit (expense)	**350.1**	(6.0)	**324.9**	(24.0)
Net income (loss)	**$ 412.8**	$ (17.2)	**$ 470.8**	$ 19.7
Basic earnings (loss) per share attributable to common stockholders	**$ 2.28**	$ (0.09)	**$ 2.60**	$ 0.11
Diluted earnings (loss) per share attributable to common stockholders	**$ 2.21**	$ (0.09)	**$ 2.55**	$ 0.11
Dividends declared per common share	**$ 0.06**	$ —	**$ 0.06**	$ —
Comprehensive income (loss)	**$ 404.6**	$ (13.7)	**$ 469.5**	$ 33.2

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

	Six months ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 470.8**	$ 19.7
Add (deduct) items included in net income not using (providing) cash:		
Deferred income taxes	**(330.8)**	20.1
Amortization of intangible assets	**75.0**	76.0
Depreciation of property, plant and equipment	**49.9**	51.5
Loss on repurchases and redemptions of long-term debt	**21.1**	8.3
Unrealized (gain) loss on derivatives	**(10.3)**	11.1
Impairment loss on investments in technology-related initiatives	**8.0**	—
Amortization of deferred financing costs	**4.6**	6.6
Stock-based compensation	**3.5**	4.3
Loss on re-measurement of employee benefit plan	**2.3**	—
Premiums and expenses on tender offer for long-term debt	**—**	56.9
Other	**(0.2)**	(1.0)
Changes in assets and liabilities:		
Accounts receivable	**(42.0)**	(65.6)
Inventories	**(14.2)**	(22.8)
Accounts payable	**23.9**	50.8
Other assets and liabilities	**(15.1)**	(22.2)
Net cash provided by operating activities	**246.5**	193.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions of long-lived assets	**(62.5)**	(27.6)
Investments in technology-related initiatives	**(8.0)**	—
Collateral for interest rate derivatives	**0.1**	39.9
Proceeds from disposal of assets	**0.4**	2.2
Net cash (used for) provided by investing activities	**(70.0)**	14.5
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	**—**	500.0
Repurchases and redemptions of long-term debt	**(326.9)**	(596.2)
Debt issuance costs	**—**	(15.0)
Debt financing fees	**(2.3)**	—
Payments on long-term debt	**(45.5)**	(75.0)
Payments on notes payable	**(2.5)**	—
Dividend payments	**(10.9)**	—
Net cash used for financing activities	**(388.1)**	(186.2)
Effect of exchange rate changes on cash	**9.7**	(2.4)
Net (decrease) increase in cash and cash equivalents	**(201.9)**	19.6
Cash and cash equivalents at beginning of period	**314.0**	252.2
Cash and cash equivalents at end of period	**$ 112.1**	$ 271.8
Supplemental disclosures:		
Interest paid	**$ 88.8**	$ 114.8
Income taxes paid	**$ 6.4**	$ 3.7

The accompanying notes are an integral part of the condensed consolidated financial statements.

Allison Transmission Holdings, Inc.
Notes to Condensed Consolidated Financial Statements
(UNAUDITED)

NOTE A. OVERVIEW

Overview

Allison Transmission Holdings, Inc. and its subsidiaries (the "Company," "our," "we" or "Allison"), design and manufacture commercial and military fully-automatic transmissions.

The business was founded in 1915 and has been headquartered in Indianapolis, Indiana since inception. The Company has approximately 2,800 employees and 12 different transmission product lines. Although approximately 80% percent of revenues were generated in North America in 2011, the Company has a global presence by serving customers in Europe, Asia, South America and Africa. The Company serves customers through an independent network of approximately 1,500 independent distributor and dealer locations worldwide.

Since the introduction of the Company's first fully-automatic transmission over 60 years ago, the Company's products have gained acceptance in a wide variety of applications, including on-highway trucks (distribution, refuse, construction, fire and emergency), buses (primarily school, transit and hybrid-transit), motorhomes, off-highway vehicles and equipment (primarily energy, mining and construction) and military vehicles (wheeled and tracked). The Company has developed over 100 different product models that are used in more than 2,500 different vehicle configurations, which are compatible with more than 500 combinations of engine brands, models and ratings. The Company also sells support equipment and Allison-branded replacement parts for the Company's transmissions and remanufactured transmissions for use in the vehicle aftermarket.

Recent Developments

During the second quarter of 2012, the Company entered into co-development agreements with third parties to complement its portfolio of products and product initiatives. The agreements required the company to invest $8.0 million in the form of a convertible loan and equity. Due to the current financial position of the third parties, the company fully impaired the investments. While financially the investments have been fully impaired, the Company believes that the investments will provide it with advanced technology to complement its current transmission product offerings and product initiatives.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2012 and 2011 have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. The information herein reflects all normal recurring material adjustments, which are, in the opinion of management, necessary for the fair presentation of the results for the periods presented. The condensed consolidated financial statements herein consist of all wholly-owned domestic and foreign subsidiaries with all significant intercompany transactions eliminated.

These condensed consolidated financial statements present the financial position, results of operations and cash flows of the Company. Certain immaterial reclassifications have been made to prior period amounts to conform to the presentation of the current period financial statements. These reclassifications have no impact on previously reported net income, total stockholders' equity or cash flows.

The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 included in the Company's Form S-1/A. The interim period financial results for the three and six month periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Significant estimates include, but are not limited to, allowance for doubtful accounts, sales allowances, government price adjustments, fair market values and future cash flows associated with goodwill, indefinite life intangibles, long-lived asset impairment tests, useful lives for depreciation and amortization, warranty liability, determination of discount and other assumptions for pension and other postretirement benefit expense, income taxes and deferred tax valuation allowances, lease classification, derivative valuation, and contingencies. The Company's accounting policies involve the application of judgments and assumptions made by management that include inherent risks and uncertainties. Actual results could differ materially from these estimates. Changes in estimates are recorded in results of operations in the period that the events or circumstances giving rise to such changes occur.

Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative accounting guidance on enhancing disclosures to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The guidance requires improved information and disclosures about gross and net amounts of recognized assets and liabilities of financial and derivative instruments that are offset in an entity's statement of financial position. The guidance is to be applied retrospectively for reporting periods beginning on or after January 1, 2013. The adoption of this amendment is not expected to have a material effect on our consolidated financial statements.

In September 2011, the FASB issued authoritative accounting guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating fair value (i.e., Step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that fair value is more likely than not less than carrying value, the two-step impairment test would be required. The guidance does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, it does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted; however, we did not early adopt this guidance and continued to perform Step 1 of the goodwill impairment analysis for 2011. The adoption of this amendment will occur in conjunction with our 2012 goodwill impairment test and is not expected to have a material effect on our consolidated financial statements.

In June 2011, the FASB issued authoritative accounting guidance on improving comparability, consistency, and transparency of items reported in other comprehensive income. The guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires either a single continuous statement of comprehensive income or in two separate but consecutive statements. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. In December 2011, the FASB issued additional authoritative accounting guidance indefinitely deferring the requirement to present reclassifications of items out of accumulated other comprehensive income. The accounting guidance also establishes a common approach with International Financial Reporting Standards ("IFRS"). The guidance is to be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011 for public entities. The adoption of this amendment did not have a material effect on our condensed consolidated financial statements, but required a change in the presentation of comprehensive income from the notes of our condensed consolidated financial statements to the face of our condensed consolidated financial statements.

In May 2011, the FASB issued authoritative accounting guidance that amended wording used to describe many of the requirements in measuring fair value and disclosing information about fair value measurements. The changes are not intended to change the application of the requirements of fair value measurement, but to clarify the application and disclosure of information. The amendments to the accounting guidance also establish a common approach with IFRS. The guidance is to be applied prospectively for entities interim and annual reporting periods beginning after December 15, 2011. The adoption of this amendment did not have a material effect on our condensed consolidated financial statements.

NOTE C. INVENTORIES

Inventories consisted of the following components (dollars in millions):

	June 30, 2012	December 31, 2011
Purchased parts and raw materials	**$ 79.4**	$ 71.3
Work in progress	**7.1**	7.6
Service parts	**46.3**	43.6
Finished goods	**35.5**	33.4
Total inventories	**$168.3**	$ 155.9

Inventory components shipped to third parties, primarily cores, parts to re-manufacturers, and contract manufacturers, in which the Company has an obligation to buyback, are included in purchased parts and raw materials, with an offsetting liability in Other current liabilities.

NOTE D. GOODWILL AND OTHER INTANGIBLE ASSETS

The following presents a summary of goodwill and other intangible assets (dollars in millions):

	Expected useful life (years)	June 30, 2012	December 31, 2011
Goodwill	Indefinite	**$1,941.0**	$ 1,941.0
Other intangible assets:			
Trade name	Indefinite	**$ 870.0**	$ 870.0
Customer relationships — military	18.5	**62.3**	62.3
Customer relationships — commercial	16.5	**831.8**	831.8
Proprietary technology	12.5	**476.3**	476.3
Non-compete agreement	10.0	**17.3**	17.3
Patented technology — military	8.5	**28.2**	28.2
Tooling rights	6.0	**4.5**	4.5
Patented technology — commercial	5.5	**260.6**	260.6
Other intangible assets — gross		**2,551.0**	2,551.0
Less: accumulated amortization		**(759.9)**	(684.9)
Other intangible assets — net		**$1,791.1**	$ 1,866.1

As of June 30, 2012 and December 31, 2011, the net carrying value of our Goodwill and other intangibles was $3,732.1 million and $3,807.1 million, respectively.

NOTE E. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with the FASB's authoritative accounting guidance on fair value measurements, fair value is the price (exit price) that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and utilizes the best available information that maximizes the use of observable inputs and minimizes the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. The accounting guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by the relevant guidance are as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and publicly traded bonds.

Level 2 — Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 — Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At each balance sheet date, the Company performs an analysis of all instruments subject to authoritative accounting guidance and includes, in Level 3, all of those whose fair value is based on significant unobservable inputs. As of June 30, 2012 and December 31, 2011, the Company did not have any Level 3 financial assets or liabilities.

The Company's assets and liabilities that are measured at fair value include cash equivalents, available-for-sale securities and derivative instruments. The Company's cash equivalents consist of short-term U.S. Government backed securities. The Company's available-for-sale securities consist of ordinary shares of Torotrak plc ("Torotrak") associated with a license and exclusivity agreement with Torotrak. Torotrak's listed shares are traded on the London Stock Exchange under the ticker symbol "TRK." The Company's derivative instruments consist of interest rate swaps, foreign currency forward contracts and commodity swaps.

The Company's valuation techniques used to fair value cash equivalents and available-for-sale securities represents a market approach in active markets for identical assets that qualifies as Level 1 in the fair value hierarchy. The Company's valuation techniques used to calculate the fair value of derivative instruments represents a market approach with observable inputs that qualify as Level 2 in the fair value hierarchy.

The foreign currency contracts consist of forward rate contracts which are intended to hedge exposure of transactions denominated in certain currencies and reduce the impact of currency price volatility on the Company's financial results. The commodity contracts consist of forward rate contracts which are intended to hedge exposure of transactions involving purchases of component parts containing aluminum and steel and energy to power our facilities, reducing the impact of aluminum, steel and natural gas price volatility on the Company's financial results.

For its foreign currency derivatives, the Company uses independent valuations which use the current spot market data adjusted for the time value of money. The foreign currency hedges have been accounted for within the authoritative accounting guidance set forth on accounting for derivative instruments and hedging activities and have been recorded at fair value based upon quoted market rates. The fair values are included in other current assets in the Condensed Consolidated Balance Sheets. As of June 30, 2012, the Company elected not to apply hedge accounting to any of its foreign currency contracts, therefore all unrealized fair value adjustments and realized gains and losses are recorded in Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss).

For its commodity derivatives, the Company uses independent valuations which use current quoted market rates adjusted for the time value of money. The fair values are included in Other current and non-current assets and liabilities in the Condensed Consolidated Balance Sheets. The Company has not qualified for hedge accounting treatment for these commodity contracts, and as a result, unrealized fair value adjustments and realized gains and losses are recorded in Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss).

For its interest rate derivatives, the Company uses independent valuations which approximate the current economic value of the swaps using prices and rates at the average of the estimated bid and offer for the respective underlying assets. The floating-to-fixed interest rate swaps are based on the London Interbank Offered Rate ("LIBOR") which is observable at commonly quoted intervals. The fair values are included in other current and non-current liabilities in the Condensed Consolidated Balance Sheets. The Company has not qualified for hedge accounting treatment for the interest rate swaps and, as a result, fair value adjustments are charged directly to Interest expense in the Condensed Consolidated Statements of Comprehensive Income (Loss).

The following table summarizes the fair value of our financial assets and (liabilities) as of June 30, 2012 and December 31, 2011 (dollars in millions):

	Fair Value Measurements Using					
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		TOTAL	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Cash equivalents	**$ 3.0**	$ 125.9	**$ —**	$ —	**$ 3.0**	$ 125.9
Available-for-sale securities	**8.2**	8.1	**—**	—	**8.2**	8.1
Derivative assets	**—**	—	**0.1**	0.0	**0.1**	0.0
Derivative liabilities	**—**	—	**(68.7)**	(78.9)	**(68.7)**	(78.9)
Total	**$ 11.2**	$ 134.0	**$ (68.6)**	$ (78.9)	**$ (57.4)**	$ 55.1

NOTE F. DEBT

Long-term debt and maturities are as follows (dollars in millions):

	June 30, 2012	December 31, 2011
Long-term debt:		
Senior Secured Credit Facility Term B-1 Loan, variable, due 2014	**$ 1,752.2**	$ 2,594.9
Senior Secured Credit Facility Term B-2 Loan, variable, due 2017	**797.1**	—
Senior Cash Pay Notes, fixed 7.125%, due 2019	**471.3**	471.3
Senior Cash Pay Notes, fixed 11.0%, due 2015	**—**	309.8
Total long-term debt	**3,020.6**	3,376.0
Less: current maturities of long-term debt	**8.0**	31.0
Total long-term debt less current portion	**$ 3,012.6**	$ 3,345.0

As of June 30, 2012, the Company had $1,752.2 million of indebtedness associated with Allison Transmission Inc.'s ("ATI"), a wholly owned subsidiary of the Company, Senior Secured Credit Facility Term B-1 Loan due 2014 ("Term B-1 Loan") and $797.1 million of indebtedness associated with ATI's Senior Secured Credit Facility Term B-2 Loan due 2017 ("Term B-2 Loan"), (together the Term B-1 Loan and Term B-2 Loan defined as the "Senior Secured Credit Facility"). The Company also had indebtedness of $471.3 million of ATI's 7.125% senior cash pay notes due May 2019 ("7.125% Senior Notes").

The fair value of the Company's long-term debt obligations as of June 30, 2012 was $3,005.1 million. The fair value is based on quoted Level 1 market yields as of June 30, 2012. It is not expected that the Company would be able to repurchase a significant amount of its debt at these levels. The difference between the fair value and carrying value of the long-term debt is driven primarily by trends in the financial markets.

Senior Secured Credit Facility

In 2007, ATI entered into a Senior Secured Credit Facility having a term loan in the amount of $3,100 million with a maturity date of August 2014. In March 2012, ATI entered into an amendment with its term loan lenders under its Senior Secured Credit Facility to extend the maturity from August 7, 2014 to August 7, 2017 of $801.1 million in principal amount of the term loan with an increase in the applicable margin over LIBOR for such extended term loan to 3.50%. As a result of the debt modification, the Company recorded an additional $2.3 million as deferred financing fees in the Condensed Consolidated Balance Sheets and extended the amortization period of $5.1 million of deferred financing fees from 2014 to 2017.

The Senior Secured Credit Facility is collateralized by a lien on substantially all assets of ATI. Interest on the Term B-1 Loan is variable and currently is equal to the LIBOR plus an applicable margin based on the Company's total senior secured leverage ratio, and interest on the Term B-2 Loan is variable and currently equal to the LIBOR plus 3.50%. As of June 30, 2012, these rates were approximately 2.75% and 3.75% on the Term B-1 Loan and Term B-2 Loan, respectively, and the weighted average rate on the Senior Secured Credit Facility was approximately 3.06%. The Senior Secured Credit Facility requires minimum quarterly principal payments of $7.75 million on the term loans, which commenced December 2007, as well as prepayments from certain net cash proceeds of non-ordinary course asset sales and casualty and condemnation events and from a percentage of excess cash flow, if applicable. As of June 30, 2012, there had been no payments required for certain net cash proceeds of non-ordinary course asset sales and casualty and condemnation events. Due to voluntary prepayments, the Company has fulfilled all Term B-1 Loan required quarterly payments through its maturity date of 2014. The minimum required quarterly principal payment on the Term B-2 Loan is $2.0 million and remains through its maturity date of 2017. The remaining principal balance on each loan is due upon maturity.

In accordance with the Senior Secured Credit Facility, net cash proceeds of non-ordinary course asset sales and casualty and condemnation events will only be required to prepay the term loan if the Company does not reinvest or commit to reinvest such net cash proceeds in assets to be used in its business or to make certain other permitted investments within 15 months of the related transactions or events, subject to certain limitations. The Company must apply 50% of its annual excess cash flow (as defined in the Senior Secured Credit Facility) to the prepayment of the Term B-1 Loan and Term B-2 Loan, however this percentage reduces to certain levels and eventually to zero upon achievement of certain total senior secured leverage ratios. For the year ended December 31, 2011, the excess cash flow percentage was 0%, and as a result, the Company was not required to make any excess cash flow payment.

The Senior Secured Credit Facility also provides for $400.0 million in revolving credit borrowings, net of an allowance for up to $50.0 million in outstanding letter of credit commitments. During the second quarter of 2012, the Company borrowed $27.5 million on its revolving credit facility as part of its debt management plans and subsequently repaid the amounts within the second quarter. As of June 30, 2012, the Company had $371.7 million available under the revolving credit facility, net of $28.3 million in letters of credit. Revolving credit borrowings bear interest at a variable base rate plus an applicable margin based on the Company’s total senior secured leverage ratio. As of June 30, 2012, this rate would have been between approximately 3.00% and 5.00%. In addition, there is an annual commitment fee currently equal to 0.375% of the average unused revolving credit borrowings available under the Senior Secured Credit Facility which may fluctuate based on the Company’s total senior secured leverage ratio. Revolving credit borrowings are payable at the option of the Company throughout the term of the Senior Secured Credit Facility, with the balance due in August 2016. Should ATI not extend its Term B-1 Loan, the revolving portion of the Senior Secured Credit Facility will mature in August 2014.

In November 2008, ATI entered into an amendment to its Senior Secured Credit Facility that permits it to make discounted voluntary prepayments of its term loan in an aggregated amount not to exceed $750.0 million pursuant to a modified Dutch auction. As part of the May 2011 amendment to the Senior Secured Credit Facility, the amount available for discounted voluntary prepayments of the term loan pursuant to a modified Dutch auction was reset to $750.0 million. This provision is available to the Company for so long as the term loans are outstanding. For the three and six months ended June 30, 2012 and 2011, the Company did not repurchase any of its term loans under this amendment.

In May 2011, ATI effectively amended some of its terms under the revolving credit facility including extending the term from August 2013 to August 2016, or August 2014 if ATI does not extend its Term B-1 Loan, and increasing the borrowing capacity from $317.5 million to $400.0 million. As a result, the Company recorded an additional $4.2 million as deferred financing fees in the Condensed Consolidated Balance Sheets and $0.9 million as deferred financing fees expensed in the Condensed Consolidated Statements of Comprehensive Income (Loss). All deferred financing fees associated with the credit facility will be amortized to Interest expense on a straight-line basis over the term of the facility.

In addition, the Company made principal payments of $45.5 million and $75.0 million on the Senior Secured Credit Facility for the six months ended June 30, 2012 and 2011, respectively. The principal payments made on the Senior Secured Credit Facility for the six months ended June 30, 2012 and 2011 resulted in losses of $0.3 million and $0.6 million associated with the write off of related deferred debt issuance costs, respectively.

The Senior Secured Credit Facility requires the Company to maintain a specified maximum total senior secured leverage ratio. As of June 30, 2012, the Company was in compliance with the maximum total senior secured leverage ratio achieving a 3.19x ratio versus a 5.50x requirement threshold. Within the terms of the Senior Secured Credit Facility, a senior secured leverage ratio below 3.50x results in elimination of excess cash flow payments on the term loan for the applicable year. This reduction remains in effect as long as the Company continues to achieve a senior secured leverage ratio below 3.50x.

In addition, the Senior Secured Credit Facility, among other things, includes customary restrictions (subject to certain exceptions) on the Company’s ability to incur certain indebtedness, grant certain liens, make certain investments or declare or pay certain dividends. As of June 30, 2012, the Company is in compliance with all covenants under the Senior Secured Credit Facility.

Senior Notes

The Company may from time to time seek to retire the 7.125% Senior Notes through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions, contractual redemptions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. Prior to May 15, 2015, the Company may redeem some or all of the 7.125% Senior Notes by paying the applicable “make-whole” premium. At any time on or after May 15, 2015, the Company may redeem some or all of the 7.125% Senior Notes at specified redemption prices in the governing indenture.

In February 2012, the Company redeemed $200.0 million of ATI’s 11.0% senior cash pay notes due November 2015 (“11.0% Senior Notes”) resulting in a loss (the premium between the purchase price of the notes and the face value of such notes) of $13.5 million, including deferred financing fees written off.

In May 2012, the Company redeemed the remaining $109.8 million of the 11.0% Senior Notes resulting in a loss (the premium between the purchase price of the notes and the face value of such notes) of $7.3 million, including deferred financing fees written off.

The 7.125% Senior Notes are unsecured and guaranteed by the subsidiaries that guarantee the Senior Secured Credit Facility and will be unconditionally guaranteed, jointly and severally, by any future domestic subsidiaries that guarantee the Senior Secured Credit Facility.

Notes Payable

As of June 30, 2012 the Company had no notes payable. As of December 31, 2011, the Company had Japanese Yen denominated unsecured short-term notes of 200 million Yen (approximately $2.6 million) with a weighted average interest rate of 1.24%.

NOTE G. DERIVATIVES

The Company is exposed to certain financial risk from volatility in interest rates, foreign exchange rates and commodity prices. The risk is managed through the use of financial derivative instruments including interest rate swaps, foreign currency forward contracts and commodity swaps. The Company's current derivative instruments are used strictly as an economic hedge and not for speculative purposes. As necessary, the Company adjusts the values of the derivative instruments for counter-party or credit risk.

Interest Rate

The maturities of the interest rate swaps outstanding as of June 30, 2012 and December 31, 2011 do not correspond with the maturity of the term loans, but are similar in all other respects. The Company has not qualified for hedge accounting treatment for these derivatives, and as a result, fair value adjustments are charged directly to Interest expense in the Condensed Consolidated Statements of Comprehensive Income (Loss). A summary of the Company's interest rate derivatives as of June 30, 2012 and December 31, 2011 follows (dollars in millions):

	June 30, 2012		December 31, 2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Swap D, due 2013	**$ 125.0**	**$ (5.2)**	$ 125.0	$ (7.3)
Interest Rate Swap E, due 2013	**150.0**	**(3.9)**	150.0	(5.2)
Interest Rate Swap F, due 2013	**75.0**	**(1.8)**	75.0	(2.4)
Interest Rate Swap G, due 2013	**75.0**	**(2.1)**	75.0	(2.8)
Interest Rate Swap H, due 2014	**350.0**	**(23.6)**	350.0	(27.3)
Interest Rate Swap I, due 2014	**350.0**	**(23.8)**	350.0	(27.5)
Interest Rate Swap J, due 2014	**125.0**	**(3.0)**	125.0	(2.6)
Interest Rate Swap K, due 2014	**125.0**	**(3.1)**	125.0	(2.7)
	$1,375.0	**$ (66.5)**	$1,375.0	$ (77.8)

Certain of the Company's interest rate derivatives contain credit-risk and collateral contingent features under which downgrades in the Company's credit rating could require the Company to increase its collateral. Certain interest rate derivatives also contain provisions under which the Company may be required to post additional collateral if the LIBOR interest rate curve reaches certain levels.

As of June 30, 2012 and December 31, 2011, the Company had recorded collateral of $1.9 million and $2.0 million in Other current assets in the Condensed Consolidated Balance Sheets, as the balances are subject to frequent change.

Currency Exchange

The Company's business is subject to foreign exchange rate risk. As a result, the Company enters into various forward rate contracts that qualify as derivatives under the authoritative accounting guidance to manage certain of these exposures. Forward contracts are used to hedge forecasted transactions and known exposure of payables denominated in a foreign currency. The Company generally does not elect to apply hedge accounting under the authoritative accounting guidance and records the unrealized fair value adjustments and realized gains and losses associated with these contracts in Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss) during the period of change.

The following table summarizes the outstanding foreign currency forward contracts as of June 30, 2012 and December 31, 2011 (amounts in millions):

	June 30, 2012		December 31, 2011	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Japanese Yen (JPY)	**¥100.0**	**$ 0.0**	N/A	$ —
Indian Rupee (INR)	**N/A**	**—**	₹ 81.0	(0.1)
British Pound (GBP)	**N/A**	**—**	£ 2.0	(0.0)
Canadian Dollar (CAD)	**N/A**	**—**	C$ 0.3	0.0
		$ 0.0		$ (0.1)

Commodity

As a result of the Company's commodity price risk, primarily with component suppliers, it has chosen to manage steel, aluminum and natural gas exposure by entering into commodity swap contracts that qualify as derivatives under authoritative accounting guidance. The Company has not qualified for hedge accounting treatment for these commodity contracts and, as a result, unrealized fair value adjustments and realized gains and losses will be charged directly to Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss).

The following table summarizes the outstanding commodity swaps as of June 30, 2012 and December 31, 2011 (dollars in millions):

	June 30, 2012			December 31, 2011		
	Notional Amount	**Quantity**	**Fair Value**	**Notional Amount**	**Quantity**	**Fair Value**
Aluminum	**$ 22.5**	**10,300 metric tons**	**$ (1.8)**	$ 17.0	7,725 metric tons	$ (1.0)
Steel	**$ 1.3**	**2,540 metric tons**	**(0.3)**	0.5	900 metric tons	(0.0)
Natural Gas	**$ 0.4**	**130,000 MMBtu**	**0.0**	0.3	80,000 MMBtu	(0.0)
			$ (2.1)			$ (1.0)

The following tabular disclosures further describe the Company's derivative instruments and their impact on the financial condition of the Company (dollars in millions):

	June 30, 2012		December 31, 2011	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives not designated as hedging instruments				
Foreign currency contracts	**Other current assets**	**$ 0.0**	Other non-current liabilities	$ (0.1)
Commodity contracts	**Other current and non-current assets**	**0.1**	Other current and non-current liabilities	(1.0)
	Other current and non-current liabilities	**(2.2)**		
Interest rate contracts	**Other current and non-current liabilities**	**(66.5)**	Other current and non-current liabilities	(77.8)
Total derivatives not designated as hedging instruments		**$ (68.6)**		$ (78.9)

The fair values of the derivatives are recorded between Other current and non-current assets and Other current and non-current liabilities as appropriate in the Condensed Consolidated Balance Sheets. As of June 30, 2012, the amount recorded to Other current assets for foreign currency contracts was $0.0 million. The amounts recorded to Other current and non-current assets and Other current and non-current liabilities for commodity contracts were $0.1 million, $0.0 million, ($1.6) million, and ($0.6) million, respectively. The amounts recorded to Other current and non-current liabilities for interest rate contracts were ($34.2) million and ($32.3) million, respectively.

As of December 31, 2011, the amount recorded to Other non-current liabilities for foreign currency contracts was ($0.1) million. The amounts recorded to Other current and non-current liabilities for commodity contracts were ($0.7) million and ($0.3) million, respectively. The amounts recorded to Other current and non-current liabilities for interest rate contracts were ($31.9) million and ($45.9) million, respectively.

The following tabular disclosures further describe the Company's derivative instruments and their impact on the results of operations of the Company (dollars in millions):

	Three months ended June 30, 2012		Three months ended June 30, 2011	
	Location of gain (loss) recognized on derivatives	Amount of gain (loss) recognized on derivatives	Location of gain (loss) recognized on derivatives	Amount of gain (loss) recognized on derivatives
Derivatives not designated as hedging instruments				
Foreign currency contracts	**Other (expense) income, net**	**$ 0.1**	Other (expense) income, net	$ 0.2
Commodity contracts	**Other (expense) income, net**	**(2.1)**	Other (expense) income, net	(1.1)
Interest rate contracts	**Interest expense**	**6.8**	Interest expense	(16.6)
Total gain (loss) recognized on derivatives not designated as hedging instruments		**$ 4.8**		$ (17.5)

	Six months ended June 30, 2012		Six months ended June 30, 2011	
	Location of gain (loss) recognized on derivatives	Amount of gain (loss) recognized on derivatives	Location of gain (loss) recognized on derivatives	Amount of gain (loss) recognized on derivatives
Derivatives not designated as hedging instruments				
Foreign currency contracts	**Other (expense) income, net**	**$ 0.3**	Other (expense) income, net	$ 1.2
Commodity contracts	**Other (expense) income, net**	**(1.5)**	Other (expense) income, net	0.8
Interest rate contracts	**Interest expense**	**11.3**	Interest expense	(10.1)
Total gain (loss) recognized on derivatives not designated as hedging instruments		**$ 10.1**		$ (8.1)

NOTE H. PRODUCT WARRANTY LIABILITIES

Product warranty liability activities consist of the following (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Beginning balance	**$ 113.6**	$ 125.0	**$ 115.4**	$ 128.5
Payments	**(13.3)**	(6.9)	**(22.2)**	(17.2)
Increase in liability (warranty issued during period)	**7.4**	7.0	**14.5**	13.3
Net adjustment to liability	**3.2**	(4.6)	**3.0**	(4.3)
Accretion (for Predecessor liabilities)	**0.2**	0.3	**0.4**	0.5
Ending balance	**$ 111.1**	$ 120.8	**$ 111.1**	$ 120.8

As of June 30, 2012, the current and non-current liabilities were $33.9 million and $77.2 million, respectively. As of June 30, 2011, the current and non-current liabilities were $32.4 million and $88.4 million, respectively. During the second quarter of 2012, the Company completed an analysis of its Dual Power Inverter Module ("DPIM") extended coverage program and determined, based on current claims, that the product warranty liability should be reduced by $7.9 million. This resulted in a $7.3 million reduction in the General Motors ("GM") DPIM receivable and a $0.6 million favorable adjustment to the Condensed Consolidated Statements of Comprehensive Income (Loss). As part of the analysis, it was also determined that design issues related to the early introduction of the replacement DPIM unit resulted in a $10.0 million increase to the product warranty liability. As the replacement DPIM unit is the responsibility of the Company and not covered by the Asset Purchase Agreement, the Company recorded a $10.0 million charge to the Condensed Consolidated Statements of Comprehensive Income (Loss).

Deferred revenue for extended transmission coverage activity (dollars in millions):

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Beginning balance	**$ 61.2**	$ 57.1	**$ 60.7**	$ 56.2
Increases	**7.3**	5.6	**12.8**	9.7
Revenue earned	**(4.9)**	(3.5)	**(9.9)**	(6.7)
Ending balance	**$ 63.6**	$ 59.2	**$ 63.6**	$ 59.2

As of June 30, 2012, the current and non-current liabilities were $20.2 million and $43.4 million, respectively. As of June 30, 2011, the current and non-current liabilities were $17.7 million and $41.5 million, respectively.

NOTE I. OTHER (EXPENSE) INCOME, NET

Other (expense) income, net consists of the following (dollars in millions):

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Loss on repurchases of long-term debt	**$ (7.6)**	$ (8.3)	**$ (21.1)**	$ (8.3)
Termination of Sponsor services agreement	**—**	—	**(16.0)**	—
Impairment loss on investments in technology-related initiatives	**(8.0)**	—	**(8.0)**	—
Initial public offering fees and expenses	**(0.4)**	—	**(6.1)**	—
Grant Program income	**1.3**	3.1	**4.1**	6.8
Loss on foreign exchange	**(3.7)**	(1.0)	**(3.0)**	(2.3)
Loss on re-measurement of employee benefit plans (see NOTE K)	**(2.3)**	—	**(2.3)**	—
Unrealized loss on derivative contracts	**(1.7)**	(2.6)	**(1.0)**	(1.0)
Realized (loss) gain on derivative contracts	**(0.3)**	1.7	**(0.2)**	3.0
Vendor settlement	**—**	3.9	**—**	3.9
Other	**(0.1)**	0.3	**—**	0.7
Total	**$ (22.8)**	$ (2.9)	**$ (53.6)**	$ 2.8

During the second quarter of 2012, the Company entered into co-development agreements with various companies to expand our position in transmission technologies. Due to various uncertainties surrounding these investments including, but not limited to, the startup nature of the underlying businesses, their continued negative cash flows, undercapitalization and unproven business plans, the Company has impaired these investments to zero as of June 30, 2012. The charge of $8.0 million was recorded in Other expense (income), net in the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2012.

In March 2012, the Company and affiliates of the Carlyle Group and Onex Corporation ("Sponsors") agreed to terminate the services agreement. The Company agreed to make a termination payment of $16.0 million, representing the present value of payments over the estimated term of the services agreement.

In March 2012, the Company priced its initial public offering of common stock. All of the shares of common stock offered were sold by existing stockholders with the Company receiving no proceeds from the sale. As a result, approximately $6.1 million of fees and expenses related to the initial public offering have been recorded to Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss).

In 2009, the Company was notified by the U.S. Department of Energy that it was selected to receive matching funds up to $62.8 million from a grant program funded by the American Recovery and Reinvestment Act for the development of Hybrid manufacturing capacity in the U.S. (the "Grant Program"). All applicable expenses associated with the Grant Program have been charged to Engineering — research and development while the Government's matching reimbursement is recorded to Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss). Since inception of the Grant Program, the Company has recorded $33.5 million of Grant Program income to Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss). All matching funds under the Grant Program are expected to be received by 2013.

For the three months ended June 30, 2012 and 2011, the Company recorded $0.7 million and $0.1 million, respectively, as a reduction of the basis of capital assets purchased under the Grant Program. For the six months ended June 30, 2012 and 2011, the Company recorded $2.2 million and $1.0 million, respectively, as a reduction of the basis of capital assets purchased under the Grant Program. Since inception of the Grant Program, the Company has placed approximately $7.3 million of assets in service under the Grant Program, resulting in related depreciation of $0.3 million for the six months ended June 30, 2012.

NOTE J. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following (dollars in millions):

	As of June 30, 2012	As of December 31, 2011
Payroll and related costs	**$ 35.0**	$ 49.9
Accrued derivative payable	**34.3**	31.9
Sales allowances	**28.0**	32.3
Vendor buyback obligation	**14.9**	15.4
Military price reduction reserve	**13.6**	17.6
Accrued interest payable	**12.0**	19.1
Taxes payable	**9.6**	17.1
Research and development payable	**0.0**	5.0
Other accruals	**13.9**	11.6
Total	**$161.3**	$ 199.9

NOTE K. EMPLOYEE BENEFIT PLANS

Components of net periodic benefit expense consist of the following (dollars in millions):

	Pension Plans Three months ended June 30,		Post-retirement Benefits Three months ended June 30,	
	2012	2011	2012	2011
Net periodic benefit expense:				
Service cost	**$ 4.1**	$ 3.7	**$ 0.9**	$ 0.9
Interest cost	**1.2**	1.0	**1.8**	1.8
Expected return on assets	**(1.6)**	(1.1)	**—**	—
Prior service cost	**0.0**	0.1	**—**	—
Loss	**0.3**	0.2	**—**	—
Settlement loss	**2.3**	—	**—**	—
Net periodic benefit expense	**$ 6.3**	$ 3.9	**$ 2.7**	$ 2.7

	Pension Plans Six months ended June 30,		Post-retirement Benefits Six months ended June 30,	
	2012	2011	2012	2011
Net periodic benefit expense:				
Service cost	**$ 8.2**	$ 7.4	**$ 1.9**	$ 1.8
Interest cost	**2.3**	2.0	**3.6**	3.6
Expected return on assets	**(3.1)**	(2.2)	**—**	—
Prior service cost	**0.0**	0.2	**—**	—
Loss	**0.7**	0.4	**—**	—
Settlement loss	**2.3**	—	**—**	—
Net periodic benefit expense	**$ 10.4**	$ 7.8	**$ 5.5**	$ 5.4

During the second quarter of 2012, the Company completed the transfer of its pension obligation for certain qualified hourly employees from the Company's hourly defined benefit pension plan to GM's pension plan as part of the Asset Purchase Agreement. The transfer resulted in a one-time non-cash settlement charge of $2.3 million recorded in Other expense (income), net and a $4.2 million reduction to the Company's pension liability with corresponding adjustments to Accumulated other comprehensive loss, net of tax.

The Company's pension benefit costs were calculated using various actuarial assumptions and methodologies as prescribed by GAAP. These assumptions include discount rates, expected return on defined benefit pension plan assets, inflation, rate of compensation increases, mortality rates, and other factors. All calculations for June 30, 2012 were made using the same assumptions used for December 31, 2011 financial reporting with the exception of the discount rate for the hourly pension plan, which changed from 4.6% to 4.1%. The Company's discount rate was determined by matching the plans projected cash flows to a yield curve based on long-term, fixed income debt instruments available as of the re-measurement date of June 30, 2012.

NOTE L. INCOME TAXES

The effective tax rate for the three and six months ended June 30, 2012 was (558%) and (223%), respectively. For the three and six months ended June 30, 2012, the Company recorded total tax benefit of $350.1 million and $324.9 million, respectively. The primary driver of the effective tax rate for the quarter was the release of the Company's valuation allowance against its deferred tax asset resulting in an income tax benefit of $384.8 million. The pretax income recorded for the six month period ended June 30, 2012 includes approximately $30.1 million of discrete expense items primarily related to the termination of its services agreement with its Sponsors and transaction costs associated with the Company's initial public offering.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies and results of recent operations in making this assessment.

Management has determined, based on the evaluation of both objective and subjective evidence available, that a valuation allowance is no longer necessary and that it is more likely than not that the deferred tax assets are fully realizable. The Company has reached a sustained period of profitability and believes its objectively measured positive evidence outweighs the negative evidence. Accordingly, the Company has recognized an income tax benefit as a result of the release of the valuation allowance which had previously been recorded against the deferred tax assets.

In accordance with the FASB's authoritative guidance on accounting for uncertainty in income taxes, the Company had no liability for unrecognized tax benefits as of June 30, 2012 and December 31, 2011. The accounting guidance prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For the year ended December 31, 2011, the return will remain subject to examination by the various taxing authorities for the duration of the applicable statute of limitations (generally three years from the later of the date of filing or the due date of the return).

NOTE M. COMMITMENTS AND CONTINGENCIES

Claims, Disputes, and Litigation

The Company is party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business. These proceedings primarily involve commercial claims, product liability claims, personal injury claims and workers' compensation claims. The Company believes that the ultimate liability, if any, in excess of amounts already provided for in the financial statements or covered by insurance on the disposition of these matters will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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NOTE N. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

On August 7, 2007, the Sponsors entered into a services agreement with ATI, pursuant to which ATI paid the Sponsors an annual fee of approximately $3.0 million (shared equally by the Sponsors) for certain advisory, consulting and other services to be performed by the Sponsors, exclusive of the reimbursements for certain out-of-pocket expenses incurred in connection with the performance of such services, and additional reasonable compensation for other services provided by the Sponsors from time to time, including consulting and other services with respect to acquisitions and divestitures or sales of equity or debt instruments. In March 2012, the Company and the Sponsors agreed to terminate the services agreement. The Company agreed to make a termination payment of $16.0 million, representing the present value of payments over the remaining estimated term of the services agreement.

Senior Notes Held by Executive Officers

As of June 30, 2012, Lawrence E. Dewey, our President and Chief Executive Officer, David S. Graziosi, our Executive Vice President, Chief Financial Officer and Treasurer, and Robert M. Price, our Vice President, Human Resources, held approximately $100,000, $450,000, and $150,000 in aggregate principal amount of the 7.125% Senior Notes.

NOTE O. EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share (“EPS”) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the reporting period that are calculated using the treasury stock method for stock options. The treasury stock method assumes that the Company uses the proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized and any tax benefits that would be credited to additional paid-in-capital when the award generates a tax deduction. If there would be a shortfall resulting in a charge to additional paid-in-capital, such an amount would be a reduction of the proceeds. For the three and six months ended June 30, 2011, outstanding stock options were not included in the diluted EPS computation because they were anti-dilutive.

The following table reconciles the numerators and denominators used to calculate basic EPS and diluted EPS (in millions, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income (loss)	**$ 412.8**	$ (17.2)	**$ 470.8**	$ 19.7
Weighted average shares of common stock outstanding	**181.4**	181.4	**181.4**	181.4
Dilutive effect stock-based awards	**5.0**	—	**3.0**	—
Diluted weighted average shares of common stock outstanding	**186.4**	181.4	**184.4**	181.4
Basic earnings (loss) per share attributable to common stockholders	**$ 2.28**	$ (0.09)	**$ 2.60**	$ 0.11
Diluted earnings (loss) per share attributable to common stockholders	**$ 2.21**	$ (0.09)	**$ 2.55**	$ 0.11

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to help the reader understand our business, financial condition, results of operations, liquidity and capital resources. You should read this discussion in conjunction with our condensed consolidated interim financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q.

The statements in this discussion regarding industry trends, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Part II, Item 1A. "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Overview

Allison Transmission Holdings, Inc. and its subsidiaries (the "Company," "our," "us," "we" or "Allison"), design and manufacture fully-automatic transmissions for medium- and heavy-duty commercial vehicles, medium- and heavy-tactical U.S. military vehicles and hybrid-propulsion systems for transit buses. We generate our net sales primarily from the sale of transmissions, transmission parts, support equipment, military kits, engineering services and extended transmission warranty coverage to a wide array of original equipment manufacturers ("OEMs"), distributors and the U.S. government. Although approximately 80% of our net sales were generated in North America in 2011, we have a global presence, serving customers in Europe, Asia, South America and Africa. We have approximately 2,800 employees and 12 different transmission product lines. We serve customers through an established network of approximately 1,500 authorized independent distributors and dealers worldwide. Since the introduction of our first fully-automatic transmission over 60 years ago, our products have gained acceptance in a wide variety of applications, including on-highway trucks (distribution, refuse, construction, fire and emergency), buses (primarily school, transit and hybrid-transit), motorhomes, off-highway vehicles and equipment (primarily energy, mining and construction) and military vehicles (wheeled and tracked).

Recent Developments

During the second quarter of 2012, we entered into co-development agreements with third parties to complement our portfolio of products and product initiatives. The agreements required us to invest $8.0 million in the form of a convertible loan and equity. Due to the current financial position of the third parties, we fully impaired the investments. While financially the investments have been fully impaired, we believe that the investments will provide us with advanced technology to complement our current transmission product offerings and product initiatives.

Trends Impacting Our Business

Our net sales are driven by commercial vehicle production, which tends to be highly correlated to macroeconomic conditions. The recent global economic downturn led to a significant decline in annual commercial vehicle production volumes. According to America's Commercial Transportation Research, commercial truck and bus production volumes in our North American on-highway markets are projected to continue to grow, but to remain below the 1998-2008 average production levels through 2014. However, we believe the anticipated increase in global commercial vehicle production, together with pent up demand in the North American market that resulted from the deferral of purchases during the economic downturn, will support our continued growth and result in increased net sales.

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Second Quarter Net Sales by End Market (in millions):

End Market	Q2 2012 Net Sales	Q2 2011 Net Sales	% Variance
North America On-Highway	$ 217	$ 189	15%
North America Hybrid-Propulsion Systems for Transit Bus	$ 18	$ 40	(55%)
North America Off-Highway	$ 44	$ 70	(37%)
Military	$ 80	$ 69	16%
Outside North America On-Highway	$ 78	$ 77	1%
Outside North America Off-Highway	$ 30	$ 21	43%
Service, Parts, Support Equipment & Other	$ 92	$ 90	2%
Total Net Sales	$ 559	$ 556	1%

North America On-Highway end market continued its recovery with net sales up 15 percent for the second quarter 2012 compared to the second quarter 2011. Rugged Duty Series and school bus models were the primary drivers of this performance followed by a smaller increase in motor home models. These increases were partially offset by reduced Highway Series models. We expect continued growth in this end market in the second half, though at an appreciably slower rate than what we have experienced year to date, given diminished commercial vehicle production forecasts.

North America Hybrid-Propulsion Systems for Transit Bus end market net sales were down 55 percent for the second quarter 2012 compared to the second quarter 2011 principally due to intra-year movements in the timing of orders. We believe second half net sales will be higher relative to the level experienced in second quarter of 2012.

North America Off-Highway end market net sales were down 37 percent for the second quarter 2012 compared to the second quarter of 2011. The year over year second quarter decrease was principally driven by decreased demand from hydraulic fracturing applications due to weakness in natural gas pricing. We believe second half year over year comparisons will continue to be challenging due to the strong demand we experienced last year and into the first quarter of 2012 and that second quarter net sales are more reflective of the demand level we can expect for the remainder of the year.

Military end market net sales were up 16 percent for the second quarter 2012 compared to the second quarter 2011. The year over year second quarter increase was principally driven by increased wheeled military products requirements. Due to anticipated reductions in U.S. defense spending we continue to expect a decline in net sales for the second half of 2012 compared to the prior year.

Outside North America On-Highway end market net sales were up 1 percent for the second quarter 2012 compared to the second quarter 2011, reflecting strength in China and Latin America being offset by a weaker environment in Europe. Despite challenging economic conditions, we continued to pursue our strategic priorities including regional marketing efforts to increase the penetration level of fully-automatic transmissions and attainment of additional vehicle releases in key emerging growth markets. We expect second half net sales in line with the prior year level due to increases in emerging markets offsetting continued weakness in European end markets.

Outside North America Off-Highway end market net sales were up 43 percent for the second quarter 2012 compared to the second quarter 2011. The increase was principally driven by continued strong demand from the mining and energy sectors. We expect continued double-digit year over year growth in second half net sales driven by the energy and mining sectors and our increased penetration in these end markets.

Service parts, support equipment & other end market net sales were up 2 percent for the second quarter 2012 compared to the second quarter 2011. The increase was principally driven by price increases on certain products, support equipment sales commensurate with increased transmission unit volume and increased global on-highway service part sales partially offset by decreased global off-highway service parts sales. We expect second half net sales to be in line with the prior year level.

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Key Components of our Results of Operations

Net sales

We generate our net sales primarily from the sale of transmissions, transmission parts, support equipment, military kits, engineering services and extended transmission coverage to a wide array of OEMs, distributors and the U.S. government. Sales are recorded net of provisions for customer allowances and other rebates. Engineering services are recorded as net sales in accordance with the terms of the contract. The associated costs are recorded in cost of sales. We also have royalty agreements with third parties that provide net sales as a result of joint efforts in developing marketable products.

Cost of sales

Our most significant components of cost of sales are purchased parts, the overhead expense related to our manufacturing operations and direct labor associated with the manufacture and assembly of transmissions and parts. For the six months ended June 30, 2012, direct material costs were approximately 71%, overhead costs were approximately 23%, and direct labor costs were approximately 6% of total cost of sales. We are subject to changes in our cost of sales caused by movements in underlying commodity prices. We seek to hedge against this risk by using commodity swap contracts and, beginning in 2011, long-term supply agreements. See "—Quantitative and Qualitative Disclosures about Market Risk — Commodity Price Risk."

Selling, general and administrative expenses

The principal components of our selling, general and administrative expenses are salaries and benefits for our office personnel, advertising and promotional expenses, product warranty expense, expenses relating to certain information technology systems and amortization of our intangibles.

Engineering — research and development

We incur costs in connection with research and development programs that are expected to contribute to future earnings. Such costs are expensed as incurred. In 2009, we were notified by the Department of Energy ("DOE") that we were selected to receive matching funds up to $62.8 million from a cost-share grant program funded by the American Recovery and Reinvestment Act for the development of hybrid-propulsion system manufacturing capacity in the U.S. (the "Grant Program"). Applicable costs associated with the Grant Program have been charged either to engineering — research and development or capital assets. The DOE's matching reimbursement is recorded to Other (expense) income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss), or in the case of capital expenditure, as a reduction in the cost basis of the capital asset.

Non-GAAP Financial Measure

We use Adjusted net income to measure our overall profitability because it better reflects our cash flow generation by capturing the actual cash taxes paid rather than our tax expense as calculated under accounting principles generally accepted in the United States of America ("GAAP") and excludes the impact of the non-cash annual amortization of certain intangible assets that were created at the time of the acquisition and other certain non-recurring items. We use Adjusted EBITDA, Adjusted EBITDA margin and Adjusted free cash flow to evaluate and control our cash operating costs and to measure our operating profitability. We believe the presentation of Adjusted net income, Adjusted EBITDA, Adjusted EBITDA margin 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, and Adjusted EBITDA margin as an alternative to net income, determined in accordance with GAAP, as an indicator of operating performance. You should not consider Adjusted free cash flow as an alternative to net cash provided by operating activities, determined in accordance with GAAP, as an indicator of our cash flow.

A directly comparable GAAP measure to Adjusted net income and Adjusted EBITDA is Net income. A directly comparable GAAP measure to Adjusted free cash flow is Net cash provided by operating activities. The following is a reconciliation of Net income to Adjusted net income, Adjusted EBITDA and Adjusted EBITDA margin, and a reconciliation of Net cash provided by operating activities to Adjusted free cash flow:

	For the three months ended June 30, (unaudited)		For the six months ended June 30, (unaudited)	
(in millions)	2012	2011	2012	2011
Net income (loss)	$ 412.8	$ (17.2)	$ 470.8	$ 19.7
plus:				
Interest expense, net	34.1	71.0	74.8	120.6
Cash interest	(52.7)	(84.9)	(88.8)	(114.8)
Income tax (benefit) expense	(350.1)	6.0	(324.9)	24.0
Cash income taxes	(3.5)	(2.1)	(6.4)	(3.7)
Fee to terminate services agreement with Sponsors (a)	—	—	16.0	—
Technology-related investments expense (b)	8.0	—	8.0	—
Initial public offering expenses (c)	0.4	—	6.1	—
Amortization of intangible assets	37.5	38.0	75.0	76.0
Adjusted net income	$ 86.5	$ 10.8	$ 230.6	$ 121.8
Cash interest expense	52.7	84.9	88.8	114.8
Cash income taxes	3.5	2.1	6.4	3.7
Depreciation of property, plant and equipment	25.3	25.8	49.9	51.5
Loss on repurchases of long-term debt (d)	7.6	8.3	21.1	8.3
Dual power inverter module extended coverage (e)	9.4	—	9.4	—
Benefit plan re-measurement (f)	2.3	—	2.3	—
Unrealized loss on hedge contracts (g)	1.7	2.6	1.0	1.0
Premiums and expenses on tender offer for long-term debt (h)	—	56.9	—	56.9
Benefit plan adjustment (i)	—	(2.0)	—	(2.0)
Restructuring charges (j)	—	0.6	—	0.6
Other (k)	1.7	3.0	4.2	5.7
Adjusted EBITDA	$ 190.7	$193.0	$ 413.7	$ 362.3
Net sales	$ 559.4	$555.7	$1,161.3	$1,072.7
Adjusted EBITDA margin	34.1%	34.7%	35.6%	33.8%
Net cash provided by operating activities	$ 106.9	$ 83.8	$ 246.5	$ 193.7
(Deductions) or additions to reconcile to Adjusted free cash flow:				
Additions of long-lived assets	(26.8)	(16.0)	(62.5)	(27.6)
Fee to terminate services agreement with Sponsors (a)	—	—	16.0	—
Adjusted free cash flow	$ 80.1	$ 67.8	$ 200.0	$ 166.1

(a) Represents a one-time payment (recorded in Other (expense) income, net) to terminate the services agreement with affiliates of the Carlyle Group and Onex Corporation ("Sponsors").

(b) Represents an $8.0 million impairment charge (recorded in Other (expense) income, net) on investments in co-development agreements with various companies to expand our position in transmission technologies.

(c) Represents $0.4 million and $6.1 million of fees and expenses (recorded in Other (expense) income, net) related to our initial public offering in March 2012 for the three and six months ended June 30, 2012, respectively.

(d) Represents a $7.6 million and $8.3 million loss (recorded in Other (expense) income, net) realized on the redemptions and repayments of Allison Transmission Inc's ("ATI"), a wholly owned subsidiary of the Company, long-term debt for the three months ended June 30, 2012 and 2011. Represents a $21.1 million and $8.3 million loss (recorded in Other (expense) income, net) realized on the redemptions and repayments of ATI's long-term debt for the six months ended June 30, 2012 and 2011.

(e) During the second quarter of 2012, we increased our liability related to the Dual Power Inverter Module ("DPIM") extended coverage program due to claims data and additional design issues identified during introduction of replacement units. The increase in liability resulted in a charge of approximately $9.4 million (recorded in Selling, general and administrative expenses) for the three and six months ended June 30, 2012.

(f) Represents a $2.3 million settlement charge (recorded in Other (expense), income, net) related to the transfer of pension obligations for certain qualified hourly employees from our hourly defined benefit pension plan to General Motors' pension plan as part of the Asset Purchase Agreement.

(g) Represents $1.7 million and $2.6 million of unrealized losses (recorded in Other (expense) income, net) on the mark-to-market of our foreign currency and commodities contracts for the three months ended June 30, 2012 and 2011, respectively. Represents $1.0 million and $1.0 million of unrealized losses (recorded in Other (expense) income, net) on the mark-to-market of our foreign currency and commodities contracts for the six months ended June 30, 2012 and 2011, respectively.

(h) Represents $56.9 million (recorded in Other (expense) income, net) of premiums and expenses related to the tender offer for ATI's 11.25% senior toggle notes due 2015 ("Senior Toggle 11.25% Notes") in the second quarter of 2011.

(i) Represents a ($2.0) million ($0.7 million recorded in Cost of sales, $0.7 million recorded in Selling, general and administrative expenses, and $0.6 million recorded in Engineering — research and development) favorable adjustment related to certain differences between benefits promised under a certain benefit plan and the administration of the plan.

(j) Represents $0.6 million ($0.1 million recorded as Cost of sales and $0.5 million recorded as Engineering — research and development) of restructuring expenses related to a second quarter 2011 salaried employee headcount reduction program.

(k) Represents employee stock compensation expense and service fees (recorded in Selling, general and administrative expenses) paid to the Sponsors.

Results of Operations

The following tables set forth certain financial information for the three and six months ended June 30, 2012 and 2011. The following tables and discussion should be read in conjunction with the information contained in our condensed consolidated financial statements and the notes thereto included in Item I of this Quarterly Report on Form 10-Q.

Comparison of three months ended June 30, 2012 and 2011

	Three months ended June 30,			
(unaudited, dollars in millions)	**2012**	**% of net sales**	**2011**	**% of net sales**
Net sales	**$559.4**	**—**	$ 555.7	—
Gross profit	**251.9**	**45.0%**	244.5	44.0%
Operating expenses:				
Selling, general and administrative expenses	**109.1**	**19.5**	96.7	17.4
Engineering — research and development	**23.2**	**4.1**	28.2	5.1
Total operating expenses	**132.3**	**23.6**	124.9	22.5
Operating income	**119.6**	**21.4**	119.6	21.5
Other expense, net:				
Interest expense, net	**(34.1)**	**(6.1)**	(71.0)	(12.8)
Premiums and expenses on tender offer for long-term debt	**—**	**—**	(56.9)	(10.2)
Other expense, net	**(22.8)**	**(4.1)**	(2.9)	(0.5)
Total other expense, net	**(56.9)**	**(10.2)**	(130.8)	(23.5)
Income (loss) before income taxes	**62.7**	**11.2**	(11.2)	(2.0)
Income tax benefit (expense)	**350.1**	**62.6**	(6.0)	(1.1)
Net income (loss)	**$412.8**	**73.8%**	$ (17.2)	(3.1)%

Net sales.

Net sales for the quarter ended June 30, 2012 were $559.4 million compared to $555.7 million for the quarter ended June 30, 2011, an increase of 0.7%. The increase was principally driven by a $31.0 million, or 9.0%, increase in net sales of global on-highway commercial products, parts and other products and an increase in net sales of $11.0 million, or 16.0%, in military products primarily driven by wheeled product requirements, partially offset by a decrease in net sales of $22.0 million, or 55.0%, for hybrid-propulsion systems primarily driven by intra-year movements in the timing of orders and a decrease in net sales of $17.0 million, or 19.0%, of global off-highway products driven by lower demand from natural gas fracturing applications due to weakness in natural gas pricing.

Gross profit.

Gross profit for the quarter ended June 30, 2012 was $251.9 million compared to $244.5 million for the quarter ended June 30, 2011, an increase of 3.0%. The increase was principally driven by $7.0 million of price increases on certain products, $4.0 million attributable to improved manufacturing performance and $1.0 million of favorable material costs, partially offset by $4.0 million of unfavorable product mix and $1.0 million of unfavorable foreign exchange.

Selling, general and administrative expenses.

Selling, general and administrative expenses for the quarter ended June 30, 2012 were $109.1 million compared to $96.7 million for the quarter ended June 30, 2011, an increase of 12.8%. The increase was principally driven by $9.4 million related to the DPIM extended coverage program and $4.6 million of favorable product warranty expense adjustments in 2011, partially offset by lower global commercial spending activities.

Engineering — research and development.

Engineering – research and development expenses for the quarter ended June 30, 2012 were $23.2 million compared to $28.2 million for the quarter ended June 30, 2011, a decrease of 17.7%. The decrease was principally driven by $6.2 million of higher 2011 technology-related license expense, partially offset by higher product initiatives spending.

Interest expense, net.

Interest expense, net for the quarter ended June 30, 2012 was $34.1 million compared to $71.0 million for the quarter ended June 30, 2011, a decrease of 52.0%. The decrease was principally driven by $23.4 million decrease in mark-to-market expense for our interest rate derivatives, $15.3 million of lower interest expense as a result of debt repayments and purchases, and $3.4 million of lower amortization of deferred financing fees, partially offset by $4.7 million of higher interest expense primarily due to the effectiveness of $700.0 million of new interest rate swaps at higher interest rates.

Premiums and expenses on tender offer of long-term debt.

During the quarter ended June 30, 2011, we completed a cash tender offer to purchase any and all of our Senior Toggle 11.25% Notes. The tender offer resulted in us purchasing $468.1 million of $505.3 million of our outstanding Senior Toggle 11.25% Notes with premiums and expenses totaling $56.9 million.

Other expense, net.

Other (expense) income, net for the quarter ended June 30, 2012 was ($22.8) million compared to ($2.9) million for the quarter ended June 30, 2011. The increase in expense was principally driven by an $8.0 million impairment of technology-related investments, a $3.9 million favorable vendor settlement in 2011, $2.7 million of unfavorable foreign exchange, $2.3 million settlement charge related to the hourly defined benefit pension plan, $2.0 million of lower realized gains on derivative contracts, $1.8 million of decreased Grant Program income, $0.4 million of fees and expenses related to our initial public offering and $0.4 million of lower miscellaneous income, partially offset by $0.9 million of lower unrealized losses on derivative contracts and a $0.7 million decrease in premiums and expenses related to redemptions of long-term debt.

Income tax benefit (expense).

Income tax benefit for the second quarter of 2012 was $350.1 million resulting in an effective tax rate of 558% versus an effective tax rate of (54%) in the second quarter of 2011. The change in effective tax rate was principally driven by the release of our valuation allowance on our deferred tax assets resulting in an income tax benefit of $384.8 million. Management has determined, based on the evaluation of both objective and subjective evidence available, that a valuation allowance is no longer necessary and that it is more likely than not that the deferred tax assets are fully realizable.

Comparison of six months ended June 30, 2012 and 2011

	Six months ended June 30,			
(unaudited, dollars in millions)	2012	% of net sales	2011	% of net sales
Net sales	**$1,161.3**	**—**	$1,072.7	—
Gross profit	**535.7**	**46.1%**	474.5	44.2%
Operating expenses:				
Selling, general and administrative expenses	**210.3**	**18.1**	197.6	18.4
Engineering — research and development	**51.1**	**4.4**	58.5	5.4
Total operating expenses	**261.4**	**22.5**	256.1	23.8
Operating income	**274.3**	**23.6**	218.4	20.4
Other expense, net:				
Interest expense, net	**(74.8)**	**(6.4)**	(120.6)	(11.3)
Premiums and expenses on tender offer for long-term debt	**—**	**—**	(56.9)	(5.3)
Other (expense) income, net	**(53.6)**	**(4.6)**	2.8	0.3
Total other expense, net	**(128.4)**	**(11.0)**	(174.7)	(16.3)
Income before income taxes	**145.9**	**12.6**	43.7	4.1
Income tax benefit (expense)	**324.9**	**27.9**	(24.0)	(2.3)
Net income	**$ 470.8**	**40.5%**	$ 19.7	1.8%

Net sales.

Net sales for the six months ended June 30, 2012 were $1,161.3 million compared to $1,072.7 million for the six months ended June 30, 2011, an increase of 8.3%. The increase was principally driven by a $108.0 million, or 16.0%, increase in net sales of global on-highway commercial products, parts and other products, an increase in net sales of $4.0 million, or 3.0%, in military products primarily driven by wheeled product requirements and an increase in net sales of $2.0 million, or 1.0%, of global off-highway products, partially offset by a decrease in net sales of $26.0 million, or 33.0%, for hybrid-propulsion systems for transit buses primarily driven by lower municipal spending and intra-year movements in the timing of orders.

Gross profit.

Gross profit for the six months ended June 30, 2012 was $535.7 million compared to $474.5 million for the six months ended June 30, 2011, an increase of 12.9%. The increase was principally driven by $46.0 million related to increased net sales, $10.0 million of price increases on certain products, $4.0 million attributable to improved manufacturing performance and $2.0 million of favorable material costs, partially offset by $1.0 million of unfavorable foreign exchange.

Selling, general and administrative expenses.

Selling, general and administrative expenses for the six months ended June 30, 2012 were $210.3 million compared to $197.6 million for the six months ended June 30, 2011, an increase of 6.4%. The increase was principally driven by $9.4 million related to the DPIM extended coverage program and $4.3 million of favorable product warranty expense adjustments in 2011, partially offset by lower global commercial spending activities.

Engineering — research and development.

Engineering – research and development expenses for the six months ended June 30, 2012 were $51.1 million compared to $58.5 million for the six months ended June 30, 2011, a decrease of 12.6%. The decrease was principally driven by $8.8 million of higher 2011 technology-related license expense, partially offset by higher product initiatives spending.

Interest expense, net.

Interest expense, net for the six months ended June 30, 2012 was $74.8 million compared to $120.6 million for the six months ended June 30, 2011, a decrease of 38.0%. The decrease was principally driven by $28.5 million of lower interest expense as a result of debt repayments and purchases, $21.4 million decrease in mark-to-market expense for our interest rate derivatives, 3.8 million of lower amortization of deferred financing fees and $0.4 million of lower interest expense as a result of lower interest rates on our Term B-1 Loan, net of the increase in the applicable margin on our Term B-2 Loan, partially offset by $8.4 million of higher interest expense primarily due to the effectiveness of $700.0 million of new interest rate swaps at higher interest rates.

Premiums and expenses on tender offer of long-term debt.

During the quarter ended June 30, 2011, we completed a cash tender offer to purchase any and all of our Senior Toggle 11.25% Notes. The tender offer resulted in us purchasing $468.1 million of $505.3 million of our outstanding Senior Toggle 11.25% Notes with premiums and expenses totaling $56.9 million.

Other expense, net.

Other (expense) income, net for the six months ended June 30, 2012 was ($53.6) million compared to $2.8 million for the six months ended June 30, 2011. The increase in expense was principally driven by a $16.0 million payment to terminate the services agreement with the Sponsors, a $12.8 million increase in premiums and expenses related to redemptions of long-term debt, an $8.0 million impairment of technology-related investments, $6.1 million of fees and expenses related to our initial public offering, a $3.9 million favorable vendor settlement in 2011, $3.2 million of lower realized gains on derivative contracts, $2.7 million of decreased Grant Program income, $2.3 million settlement charge related to the hourly defined benefit pension plan, $0.7 million of unfavorable foreign exchange and $0.7 million of lower miscellaneous income.

Income tax benefit (expense).

Income tax benefit (expense) for the six months ended June 30, 2012 was $324.9 million resulting in an effective tax rate of (223%) versus an effective tax rate of 55% for the six months ended June 30, 2011. The change in effective tax rate was principally driven by the release of our valuation allowance on our deferred tax assets. Management has determined, based on the evaluation of both objective and subjective evidence available, that a valuation allowance is no longer necessary and that it is more likely than not that the deferred tax assets are fully realizable.

Liquidity and Capital Resources

We generate cash primarily from our operating activities. We had total available cash and cash equivalents of $112.1 million and $314.0 million as of June 30, 2012 and December 31, 2011, respectively. Of the available cash and cash equivalents, approximately $109.1 million and $188.1 million was deposited in operating accounts while approximately $3.0 million and $125.9 million was invested in U.S. government backed securities as of June 30, 2012 and December 31, 2011, respectively.

Additionally, we had $371.7 million and $369.2 million available under the revolving credit facility, net of approximately $28.3 million and $30.8 million in letters of credit issued and outstanding as of June 30, 2012 and December 31, 2011, respectively. During the second quarter of 2012, we borrowed $27.5 million on our revolving credit facility as part of our debt management plans and subsequently repaid the amounts within the second quarter.

On March 9, 2012, ATI entered into an amendment with its term loan lenders under its Senior Secured Credit Facility to extend the maturity from August 7, 2014 to August 7, 2017 of approximately $801.1 million in principal amount of the term loan (“Term B-2 Loan”) with an applicable margin over the London Interbank Offered Rate (“LIBOR”) of 3.50% for such extended term loan, with the remaining term loan of approximately $1,793.8 million with an applicable margin over LIBOR of up to 2.75% maturing in August 2014 (“Term B-1 Loan”) (together the Term B-1 Loan and Term B-2 Loan defined as the “Senior Secured Credit Facility”).

Our principal uses of cash are operating expenses, capital expenditures, debt service and working capital needs. The following table shows our sources and uses of funds for the six months ended June 30, 2012 and 2011 (in millions):

	Six months ended June 30,	
Statement of Cash Flows Data	**2012**	**2011**
Cash flows from operating activities	**$ 246.5**	$ 193.7
Cash flows (used for) provided by investing activities	**(70.0)**	14.5
Cash flows used for financing activities	**(388.1)**	(186.2)

Generally, cash provided by operating activities has been adequate to fund our operations. Due to fluctuations in our cash flows and the growth in our operations, it may be necessary from time to time in the future to borrow under the Senior Secured Credit Facility to meet cash demands. We anticipate cash provided by operating activities, cash and cash equivalents and borrowing capacity under the Senior Secured Credit Facility will be sufficient to meet our cash requirements for the next twelve months.

Cash provided by operating activities

Operating activities for the six months ended June 30, 2012 generated $246.5 million of cash compared to $193.7 million for the six months ended June 30, 2011. The increase was primarily driven by increased net income adjusted for items not providing or using cash, lower accounts receivable and lower inventories, partially offset by lower accounts payable and higher other liabilities, net.

Cash used for and provided by investing activities

Investing activities for the six months ended June 30, 2012 used $70.0 million of cash compared to generating $14.5 million for the six months ended June 30, 2011. The increase was primarily driven by an increase of $34.9 million in capital expenditures, a 2011 reduction in collateral requirements related to certain of our interest rate derivatives and 2011 proceeds related to the sale of property. The increase in capital expenditures was attributable to the continued expansion of our India facility, higher product initiative spending and increased investments in productivity and replacement programs, partially offset by construction of our Hungary manufacturing facility in 2011. It is expected that the India expansion project will be completed and production will commence during the third quarter of 2012. There are no additional capital expenditures required for either the India expansion project or the construction of our Hungarian manufacturing facility at this time.

Cash used for financing activities

Financing activities for the six months ended June 30, 2012 used $388.1 million of cash compared to $186.2 million of cash used for the six months ended June 30, 2011. The increase was driven by $326.9 million related to the redemption of ATI’s 11.0% Senior Notes, $10.9 million for dividend payments made in May 2012, a $2.5 million principal payment on our Japanese Yen denominated unsecured short-term notes and $2.3 million of payments related to us extending a portion of our Senior Secured Credit Facility, partially offset by lower required principal payments on our Senior Secured Credit Facility.

In February 2012, ATI redeemed $200.0 million of the 11.0% Senior Notes resulting in a loss (the premium between the purchase price of the notes and the face value of such notes) of $13.5 million, including deferred financing fees written off.

In May 2012, ATI redeemed the remaining $109.8 million of the 11.0% Senior Notes resulting in a loss (the premium between the purchase price of the notes and the face value of such notes) of $7.3 million, including deferred financing fees written off.

Prior to May 15, 2015, we may redeem some or all of ATI’s 7.125% senior cash pay notes due May 2019 (“7.125% Senior Notes”) by paying the applicable “make-whole” premium. At any time on or after May 15, 2015, we may redeem some or all of the 7.125% Senior Notes at specified redemption prices in the governing indenture.

Our liquidity requirements are significant, primarily due to our debt service requirements. A one-eighth percent change in assumed interest rates for the Senior Secured Credit Facility, if fully drawn, as of June 30, 2012 would have a yearly impact of $2.2 million on interest expense, which includes the partial offset of our interest rate swaps. Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond our control.

In November 2008, we entered into an amendment related to the Senior Secured Credit Facility that permits us to make discounted voluntary prepayments of our term loan in an aggregated amount not to exceed $750.0 million pursuant to a modified Dutch auction. As part of the May 2011 amendment to the Senior Secured Credit Facility, the amount available for discounted voluntary prepayments of the term loan pursuant to a modified Dutch auction was reset to $750.0 million. This provision is available to us for so long as the Senior Secured Credit Facility is outstanding. For the six months ended June 30, 2012 and 2011, we did not make any discounted prepayments of our term loan under this amendment.

In addition, we made principal payments of $45.5 million and $75.0 million on the Senior Secured Credit Facility for the six months ended June 30, 2012 and 2011, respectively. The principal payments made on the Senior Secured Credit Facility for the six months ended June 30, 2012 and 2011 resulted in losses of $0.3 million and $0.6 million associated with the write off of related deferred debt issuance costs, respectively.

The Senior Secured Credit Facility requires us to maintain a specified maximum total senior secured leverage ratio of 5.50x for the remainder of the term of the loans.

As of June 30, 2012, we were in compliance with the maximum total senior secured leverage ratio, achieving a 3.19x ratio. Within the terms of the Senior Secured Credit Facility, a senior secured leverage ratio below 3.50x results in a 25 basis point reduction to the applicable margin for the Term B-1 Loan, a 12.5 basis point reduction to the commitment fee and elimination of excess cash flow payments on the term loan for the applicable year. These reductions remain in effect as long as we continue to achieve a senior secured leverage ratio below 3.50x. There are no reductions to the applicable margin available for the Term B-2 Loan.

In addition to the maximum total secured leverage ratio, the Senior Secured Credit Facility and the indentures governing the 7.125% Senior Notes include, among other things, customary restrictions (subject to certain exceptions) on our ability to incur certain indebtedness or liens, make certain investments or declare or pay certain dividends. As of June 30, 2012, we are in compliance with all covenants under the Senior Secured Credit Facility.

To manage interest rate risk associated with our variable rate debt, we currently have eight interest rate swap contracts as of June 30, 2012 that qualify as derivatives under authoritative accounting guidance for derivative instruments and hedging activities. Our interest rate swaps do not qualify for hedge accounting treatment and, as a result, fair value adjustments are charged directly to interest expense in the Condensed Consolidated Statements of Comprehensive Income (Loss). Despite the fact that we have elected a mark-to-market approach as opposed to hedge accounting treatment, the contracts are used strictly as an economic hedge and not for speculative purposes.

As of June 30, 2012, certain of our interest rate derivatives contain credit-risk and collateral contingent features. Certain interest rate derivatives contain provisions under which downgrades in our credit rating could require us to increase our collateral. Certain interest rate derivatives also contain provisions under which we may be required to post additional collateral if LIBOR reaches certain levels. As of June 30, 2012, we have been required to post collateral of $1.9 million in cash and $23.0 million in letters of credit. Our collateral requirements are driven by changes in interest rates, and therefore we may be required to post additional collateral until the LIBOR curve reaches zero.

Assuming all collateral contingent features remain the same, a 1% increase or decrease in the LIBOR interest rate curve as of June 30, 2012 would correspondingly reduce our collateral requirement by approximately $19.5 million, in a combination of cash and letters of credit, or increase our collateral requirement by approximately $5.8 million, respectively.

Contingencies

We are a party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business, including those relating to commercial transactions, product liability, safety, health, taxes, environmental and other matters. For more information, see NOTE M of our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Significant Accounting Estimates

Our principal accounting policies are described in the “Basis of Presentation and Summary of Significant Accounting Policies” section in the notes to the consolidated financial statements included in our Form S-1/A for the year ended December 31, 2011. The preparation of the condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of some assets and liabilities and, in some instances, the reported amounts of revenues and expenses during the applicable reporting period. Differences between actual and estimate are recorded in the period identified. Management believes the accounting estimates discussed above represent those accounting estimates requiring the exercise of judgment where a different set of judgments could result in the greatest changes to our reported results.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative accounting guidance on enhancing disclosures to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The guidance requires improved information and disclosures about gross and net amounts of recognized assets and liabilities of financial and derivative instruments that are offset in an entity's statement of financial position. The guidance is to be applied retrospectively for reporting periods beginning on or after January 1, 2013. The adoption of this amendment is not expected to have a material effect on our consolidated financial statements.

In September 2011, the FASB issued authoritative accounting guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating fair value (i.e., Step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that fair value is more likely than not less than carrying value, the two-step impairment test would be required. The guidance does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, it does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted; however, we did not early adopt this guidance and continued to perform Step 1 of the goodwill impairment analysis for 2011. The adoption of this amendment is not expected to have a material effect on our consolidated financial statements.

In June 2011, the FASB issued authoritative accounting guidance on improving comparability, consistency, and transparency of items reported in other comprehensive income. The guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires either a single continuous statement of comprehensive income or in two separate but consecutive statements. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. In December 2011, the FASB issued additional authoritative accounting guidance indefinitely deferring the requirement to present reclassifications of items out of accumulated other comprehensive income. The accounting guidance also establishes a common approach with International Financial Reporting Standards ("IFRS"). The guidance is to be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011 for public entities. The adoption of this amendment did not have a material effect on our consolidated financial statements, but required a change in the presentation of comprehensive income from the notes of our consolidated financial statements to the face of our consolidated financial statements.

In May 2011, the FASB issued authoritative accounting guidance that amended wording used to describe many of the requirements in measuring fair value and disclosing information about fair value measurements. The changes are not intended to change the application of the requirements of fair value measurement, but to clarify the application and disclosure of information. The amendments to the accounting guidance also establish a common approach with IFRS. The guidance is to be applied prospectively for entities interim and annual reporting periods beginning after December 15, 2011. The adoption of this amendment did not have a material effect on our consolidated financial statements.

Certain Relationships and Related Party Transactions

On August 7, 2007, the Sponsors entered into a services agreement with ATI, pursuant to which ATI paid the Sponsors an annual fee of approximately $3.0 million (shared equally by the Sponsors) for certain advisory, consulting and other services to be performed by the Sponsors, exclusive of the reimbursements for certain out-of-pocket expenses incurred in connection with the performance of such services, and additional reasonable compensation for other services provided by the Sponsors from time to time, including consulting and other services with respect to acquisitions and divestitures or sales of equity or debt instruments. In March 2012, we agreed with the Sponsors to terminate the services agreement. We agreed to make a termination payment of $16.0 million, representing the present value of payments over the remaining estimated term of the services agreement.

Senior Notes Held by Executive Officers

As of June 30, 2012, Lawrence E. Dewey, our President and Chief Executive Officer, David S. Graziosi, our Executive Vice President, Chief Financial Officer and Treasurer, and Robert M. Price, our Vice President, Human Resources, held approximately $100,000, $450,000, and $150,000 in aggregate principal amount of the 7.125% Senior Notes.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. 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; general economic and industry conditions; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; the failure of markets outside North America to increase adoption of fully-automatic transmissions; 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; the concentration of our net sales in our top five customers and the loss of any one of these; risks associated with our international operations; brand and reputational risks; our intention to pay dividends; and labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers.

Important factors that could cause actual results to differ materially from our expectations are disclosed under Part II, Item 1A. “Risk Factors.” All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements as well as other cautionary statements that are made from time to time in our public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk consists of changes in interest rates, foreign currency rate fluctuations and movements in commodity prices.

Interest Rate Risk

We are subject to interest rate market risk in connection with a portion of our long-term debt. Our principal interest rate exposure relates to outstanding amounts under the Senior Secured Credit Facility. The Senior Secured Credit Facility provides for variable rate borrowings of up to $2,964.6 million including $371.7 million under our revolving credit facility, net of $28.3 million of letters of credit. Assuming the Senior Secured Credit Facility is fully drawn, each one-eighth percentage point increase or decrease in the applicable interest rates would correspondingly change our interest expense on the Senior Secured Credit Facility by approximately $2.2 million per year. This includes the partial offset of the interest rate swaps described below. As of June 30, 2012, we had no outstanding borrowings against the revolving credit facility.

In order to mitigate our exposure to LIBOR on the Senior Secured Credit Facility, we have entered into certain interest rate swap agreements as follows:

	Counterparty	Effective Date	Notional Amount (in millions)	LIBOR Fixed Rate
Interest Rate Swap D	Fifth Third Bank	2009-2013	125.0	4.26%
Interest Rate Swap E	Barclays Capital	2010-2013	150.0	2.79%
Interest Rate Swap F	Barclays Capital	2010-2013	75.0	2.66%
Interest Rate Swap G	Barclays Capital	2010-2013	75.0	2.99%
Interest Rate Swap H	Barclays Capital	2011-2014	350.0	3.75%
Interest Rate Swap I	Deutsche Bank	2011-2014	350.0	3.77%
Interest Rate Swap J	UBS	2013-2014	125.0	2.96%
Interest Rate Swap K	UBS	2013-2014	125.0	3.05%

In certain circumstances, we and the counterparty are required to provide additional collateral under these swaps. We are exposed to increased interest expense if a counterparty defaults. Refer to NOTE F and NOTE G of our condensed consolidated financial statements included elsewhere in this report.

Exchange Rate Risk

While our net sales and costs are denominated primarily in U.S. Dollars, net sales, costs, assets and liabilities are generated in other currencies including Japanese Yen, Euro, Chinese Yuan Renminbi, Canadian Dollar, British Pound, Hungarian Forint, Brazilian Real and Indian Rupee. The expansion of our business outside North America may further increase the risk that cash flows resulting from these activities may be adversely affected by changes in currency exchange rates. As of June 30, 2012, we hold hedging contracts in Japanese Yen, which are intended to hedge either known or forecasted cash flow payments denominated in such currency. We do not hold financial instruments for trading or speculative purposes.

Assuming current levels of foreign currency transactions, a 10% increase or decrease in the Japanese Yen, Euro, Chinese Yuan Renminbi, Canadian Dollar and Indian Rupee would correspondingly change our earnings by an estimated $5 million per year. This includes the partial offset of our hedging contracts described above. All other exposure to foreign currencies is considered immaterial.

Commodity Price Risk

We are subject to changes in our cost of sales caused by movements in underlying commodity prices. Approximately two-thirds of our cost of sales consists of purchased components with significant raw material content. A substantial portion of the purchased parts are made of aluminum and steel. The cost of aluminum parts include an adjustment factor on future purchases for fluctuations in aluminum prices based on accepted industry indices. In addition, a substantial amount of steel-based contracts also include an index-based component. As our costs change, we are able to pass through a portion of the charges to certain of our customers according to our long-term supply agreements. We historically have not entered into long-term purchase contracts related to the purchase of aluminum and steel. We currently hold commodity swap contracts that are intended to hedge forecasted aluminum and steel purchases. Based on our forecasted demand for the remainder of 2012, as of June 30, 2012, the hedge contracts cover approximately 36% of our aluminum requirements and 9% of our steel requirements. Based on our forecasted demand for 2013, as of June 30, 2012, the hedge contracts cover approximately 23% of our aluminum requirements and 0% of our steel requirements. Based on our forecasted demand for 2014, as of June 30, 2012, the hedge contracts cover approximately 15% of our aluminum requirements and 0% of our steel requirements. We do not hold financial instruments for trading or speculative purposes.

Assuming current levels of commodity purchases, a 10% increase or decrease in aluminum and steel would correspondingly change our earnings by approximately $2 million and $5 million per year, respectively. This includes the partial offset of our hedging contracts described above.

Many of our recently renewed long-term customer supply agreements have incorporated a cost-sharing arrangement related to future commodity price fluctuations. Our hedging policy is that we only hedge for our exposure and do not hedge any portion of the customers' exposure. For purposes of the sensitivity analysis above, the impact of these cost sharing arrangements have not been included.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act"), as of the end of the period covered by this report. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to various legal actions in the normal course of our business, including those related to commercial transactions, product liability, safety, health, taxes, environmental and other matters. See NOTE M in the notes to the condensed consolidated financial statements included in Part I.

Item 1A. Risk Factors

There have been no material changes from our risk factors as previously reported in the prospectus filed pursuant to Rule 424(b)(1) under the Securities Act of 1933, as amended, dated as of March 15, 2012 and filed with the Securities and Exchange Commission on March 15, 2012 (Registration No. 333-172932).

Item 5. Other Information

On June 22, 2012, the board of directors of ATI ("Board") adopted the Allison Transmission, Inc. Deferred Compensation Plan. The following summary of the plan is qualified in its entirety by reference to the full text of the Deferred Compensation Plan, a copy of which is included as an exhibit to this Quarterly Report on Form 10-Q.

The Deferred Compensation Plan allows eligible key employees to defer between 5% and 50% of base salary and between 5% and 100% of cash performance bonuses in 1% increments. The plan administrator establishes notional accounts on behalf of plan participants to reflect deferrals, contributions, expenses and gains and losses attributable to investment options selected by participants from among the notional investment options determined by ATI's investment committee.

ATI may, but is not required to, make matching and other contributions to participant accounts. The compensation committee of the Board is authorized to determine from time to time whether and to what extent ATI will make such contributions. ATI currently provides matching contributions equal to 100% of a participant's elective deferrals, up to a maximum of 4% of eligible compensation.

Participants are immediately vested in all elective deferral contributions and earnings thereon. ATI contributions and related earnings vest once a participant has attained three years of credited service with ATI or if a participant is 100% vested in the Allison Transmission Salaried Employee Retirement Savings Plan. In addition, ATI contributions fully vest upon a participant's death or disability or if ATI experiences a change in control.

Participant accounts will generally be distributed based upon distribution elections made by participants when they enroll in the plan and at certain other times set forth in the plan. ATI has reserved the right to amend or terminate the plan at any time, in whole or in part, subject to the terms of the plan.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description
10.20	Incentive Plan of Allison Transmission Holdings, Inc. (filed herewith)
10.21	Deferred Compensation Plan of Allison Transmission, Inc. (filed herewith)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.1	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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.

Date: July 31, 2012

ALLISON TRANSMISSION HOLDINGS, INC.

By: /s/ Lawrence E. Dewey
Name: Lawrence E. Dewey
Title: Chairman, President and Chief Executive Officer

Date: July 31, 2012

By: /s/ David S. Graziosi
Name: David S. Graziosi
Title: Executive Vice President, Chief Financial Officer and Treasurer (Principal Accounting Officer)

Exhibit 10.20

ALLISON TRANSMISSION HOLDINGS, INC.
INCENTIVE PLAN

(Effective as of January 1, 2011)

SECTION 1. PURPOSE

The purposes of the Plan are to enable the Company and its Subsidiaries to attract, retain, motivate and reward the best qualified executive officers and key employees by providing them with the opportunity to earn competitive compensation directly linked to the Company's performance.

SECTION 2. DEFINITIONS

Unless the context requires otherwise, the following words as used in the Plan shall have the meanings ascribed to each below, it being understood that masculine, feminine and neuter pronouns are used interchangeably and that each comprehends the others.

(a) "Board" means the Board of Directors of the Company.

(b) "Committee" means the Compensation Committee of the Board or such other committee or subcommittee of the Board or the Compensation Committee as the Board or Compensation Committee shall designate from time to time.

(c) "Common Stock" means the common stock of the Company, par value $0.01 per share, and such other class of stock into which such common stock is hereafter converted or exchanged.

(d) "Company" means Allison Transmission Holdings, Inc.

(e) "Equity Incentive Plan" means the Allison Transmission Holdings, Inc. 2011 Equity Incentive Award Plan, as amended from time to time.

(f) "Participant" means (i) each executive officer of the Company and (ii) each other employee of the Company or a Subsidiary whom the Committee designates as a participant under the Plan.

(g) "Performance Period" means each fiscal year or another period as designated by the Committee.

(h) "Plan" means this Allison Transmission Holdings, Inc. Incentive Plan, as set forth herein and as may hereafter be amended from time to time.

(i) "Subsidiary" means any business entity in which the Company owns, directly or indirectly, fifty percent (50%) or more of the total combined voting power of all classes of stock entitled to vote, and any other business organization, regardless of form, in which the Company possesses, directly or indirectly, 50% or more of the total combined equity interests.

SECTION 3. AWARDS

(a) Performance Criteria. The Committee may establish the performance objective or objectives that must be satisfied in order for a Participant to receive an award for a Performance Period or may make discretionary payments from the Plan. Performance objectives may be based upon the relative or comparative achievement of performance criteria, whether in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies, as determined by the Committee for the applicable performance period, which

performance criteria may include: earnings before interest, taxes, depreciation and amortization; operating earnings; net earnings; income; earnings before interest and taxes; total shareholder return; return on the Company's assets; increase in the Company's earnings or earnings per share; revenue; revenue growth; share price performance; return on invested capital; operating income; pre- or post-tax income; net income; economic value added; profit margins; cash flow; improvement in or attainment of expense or capital expenditure levels; improvement in or attainment of working capital levels; return on equity; debt reduction; gross profit; market share; cost reductions; workforce satisfaction and diversity goals; workplace health and safety goals; product quality goals; employee retention; customer satisfaction; customer retention; completion of key projects and strategic plan development and/or implementation; job profit or performance against a multiplier. Performance objectives may be established on a Company-wide basis or with respect to one or more business units, divisions, Subsidiaries or products, or with respect to an individual. When establishing performance objectives for a Performance Period, the Committee may exclude any or all "extraordinary items," including, without limitation, the charges or costs associated with restructurings of the Company or any Subsidiary, discontinued operations, extraordinary items, capital gains and losses, dividends, share repurchase, other unusual or non-recurring items, and the cumulative effects of accounting changes. The Committee may also adjust the performance objectives for any Performance Period in its discretion, including in recognition of unusual or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such other factors as the Committee may determine.

(b) Maximum Amount Payable. The maximum aggregate amount of cash that may be paid to any one Participant during any fiscal year of the Company under the Plan with respect to one or more awards payable in cash shall be US $5,000,000.

(c) Termination of Employment. Unless otherwise determined by the Committee in its sole discretion, if a Participant's employment terminates for any reason prior to the date on which the award is paid hereunder, such Participants shall forfeit all rights to any and all awards that have not yet been paid under the Plan.

(d) Discretion. Notwithstanding anything else contained in the Plan to the contrary, the Committee shall have the right, in its absolute discretion, (i) to increase, reduce or eliminate the amount otherwise payable to any Participant under the Plan based on individual performance or conduct or any other factors that the Committee, in its discretion, shall deem appropriate and (ii) to establish rules or procedures that have the effect of limiting the amount payable to each Participant to an amount that is less than the maximum amount otherwise authorized under Section 3(b).

(e) Form of Payment. Notwithstanding any other provision in the Plan to the contrary (including, without limitation, the maximum amounts payable under Section 3(b)), the Committee shall have the right, in its discretion, to grant any award in cash, in shares of the Company's Common Stock under the Equity Incentive Plan, in other awards under the Equity Incentive Plan or in any combination thereof, to any Participant up to the maximum award payable under Section 3(b), based on individual performance or any other criteria that the Committee deems appropriate.

SECTION 4. PAYMENT

Payment of any award amount from the Plan shall be made to each Participant as soon as practicable after the Committee determines the amount of any such award amount. The Committee shall determine whether any bonus payable under the Plan is payable in cash, in shares of Common Stock (including, but not limited to, restricted common stock or restricted stock units) or other awards under the Equity Incentive Plan, or in any combination thereof. The Committee shall have the right to impose whatever conditions it deems appropriate with respect to the award of shares of Common Stock or other awards, including conditioning the vesting of such shares or other awards on the performance of additional service.

SECTION 5. GENERAL PROVISIONS

(a) Administration. The Committee shall be responsible for the administration of the Plan. The Committee shall establish the performance objectives for any fiscal year or other Performance Period determined by the Committee in accordance with Section 3 and determine whether such performance objectives have been obtained. The Committee may prescribe, amend and rescind rules and regulations relating to the administration of the Plan and make all other determinations necessary or advisable for the administration and interpretation of the Plan. Any authority exercised by the Committee under the Plan shall be exercised by the Committee in its sole discretion. Determinations, interpretations or other actions made or taken by the Committee under the Plan shall be final, binding and conclusive for all purposes and upon all persons.

(b) Delegation by the Committee. All of the powers, duties and responsibilities of the Committee specified in this Plan may be exercised and performed by the Committee or any duly constituted committee thereof to the extent authorized by the Committee to exercise and perform such powers, duties and responsibilities, and any determination, interpretation or other action taken by such committee shall have the same effect hereunder as if made or taken by the Committee.

(c) Tax Withholding. The Company shall have the power to withhold, or to require the Participant to remit to the Company, an amount in cash sufficient to satisfy all U.S. federal, state, local and any non-U.S. withholding tax or other governmental tax, charge or fee requirements in respect of any payment under the Plan.

(d) No Guarantee of Employment. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, or confer upon any Participant any right to continue in the employ or retention of the Company.

(e) Unfunded Plan; Plan Not Subject to ERISA. The Plan is an unfunded plan and Participants shall have the status of unsecured creditors of the Company. The Plan is not intended to be subject to the Employee Retirement Income and Security Act of 1974, as amended.

(f) Freedom of Action. Nothing in the Plan shall be construed as limiting or preventing the Company or any of its affiliates from taking any action that it deems appropriate or in its best interest (as determined in its sole and absolute discretion) and no Participant (or person claiming by or through a Participant) shall have any right relating to the diminishment in the value of any award or any associated return as a result of any such action. The foregoing shall not constitute a waiver by a Participant of the terms and provisions of the Plan.

(g) Forfeiture of Award Amounts.

(i) Forfeiture for Financial Reporting Misconduct. If the Company is required to prepare an accounting restatement due to material noncompliance by the Company with any financial reporting requirement under the securities laws, (x) with respect to any Participant who either knowingly or grossly negligently engaged in the misconduct or knowingly or grossly negligently failed to prevent the misconduct as determined by the Committee or is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, such Participant shall forfeit and disgorge to the Company any award amounts (A) received during the twelve (12)-month period following the filing of the financial document

embodying such financial reporting requirement or (B) earned based on the materially non-complying financial reporting, and (y) with respect to any Participant who is a current or former executive officer of the Company (as defined under the Securities Exchange Act of 1934) who received incentive compensation under the Plan during the three-year period preceding the date on which the Company is required to prepare such accounting restatement, based on erroneous data, in excess of what would have been awarded or paid to such Participant under such accounting restatement, such Participant shall forfeit and disgorge to the Company such excess incentive compensation.

(ii) Forfeiture under Applicable Laws or Regulations. In addition to forfeiture for the reasons specified in subsection (i) of this Section 5(g), the Participant shall forfeit and disgorge to the Company any award amounts to the extent required by applicable law or regulations in effect on or after the effective date of the Plan.

(h) Amendment or Alteration. The Board or the Committee may at any time amend, suspend, discontinue or terminate the Plan.

(i) Severability. The holding of any provision of this Plan to be illegal, invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Plan, which shall remain in full force and effect.

(j) Assignment. Except as otherwise provided in this Section 5(j), this Plan shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. Neither this Plan nor any right or interest hereunder shall be assignable by the Participant, his beneficiaries, or legal representatives; provided that nothing in this Section 5(j) shall preclude the Participant from designating a beneficiary to receive any benefit payable hereunder upon his death, or the executors, administrators or other legal representatives of the Participant or his estate from assigning any rights hereunder to the person or persons entitled thereunto. This Plan shall be assignable by the Company to a Subsidiary or affiliate of the Company; to any corporation, partnership or other entity that may be organized by the Company, its general partners or its Participants as a separate business unit in connection with the business activities of the Company or Participants; or to any corporation, partnership or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation, partnership or other entity, or any corporation, partnership, or other entity to or with which all or any portion of the Company's business or assets may be sold, exchanged or transferred.

(k) No Attachment. Except as required by law, no right to receive payments under this Plan shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge or hypothecation, or to execution, attachment, levy or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect.

(l) Headings. The Section headings appearing in this Plan are used for convenience of reference only and shall not be considered a part of this Plan or in any way modify, amend, or affect the meaning of any of its provisions.

(m) Rules of Construction. Whenever the context so requires, the use of the masculine gender shall be deemed to include the feminine and vice versa, and the use of the singular shall be deemed to include the plural and vice versa. That this Plan was drafted by the Company shall not be taken into account in interpreting or construing any provision of this Plan.

(n) Governing Law. This Plan and its enforcement shall be governed by, and construed in accordance with, the laws of the State of Indiana, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.

Allison Transmission, Inc. Deferred Compensation Plan

June 22, 2012

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SCHEDULE 1

PREAMBLE

The Plan is intended to be a "plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The Plan is further intended to conform with the requirements of Internal Revenue Code Section 409A and the final regulations issued thereunder and shall be interpreted, implemented and administered in a manner consistent therewith. The Plan Sponsor may establish a grantor trust to hold assets for the provision of certain benefits under the Plan as provided under Section 11. Assets of the trust, if any, shall be subject to the claims of the Plan Sponsor's general creditors, and no Participant shall have any interest in any assets of the trust or the Plan Sponsor, other than as a general creditor of the Plan Sponsor.

ARTICLE 1 – GENERAL

1.1 Effective Dates.

(a) Original Effective Date. The Original Effective Date is June 22, 2012, the date as of which the Plan is initially adopted.

1.2 Rules of Interpretation.

(a) The Plan is intended to comply with (i) Code Section 409A and (ii) the applicable provisions of ERISA, and it shall be interpreted and administered in accordance with such intent. Except as provided in the preceding sentence or as otherwise expressly provided herein, the Plan shall be construed, enforced, and administered, and the validity thereof determined, in accordance with the internal laws of the State of Indiana without regard to conflict of law principles and the following provisions of this Section.

(b) Words used herein in the masculine shall be construed to include the feminine, where appropriate, and *vice versa*, and words used herein in the singular or plural shall be construed to include the plural or singular, where appropriate.

(c) Headings and subheadings are used for convenience of reference only and shall not affect the interpretation of any provision hereof.

(d) If any provision of the Plan shall be held to violate the Code or ERISA or be illegal or invalid for any other reason, that provision shall be deemed null and void, but the invalidation of that provision shall not otherwise affect the Plan.

(e) Reference to any provision of the Code, ERISA, or other law shall be deemed to include a reference to the successor of such provision.

ARTICLE 2 – DEFINITIONS

Wherever used herein, the following terms have the meanings set forth below, unless a different meaning is clearly required by the context:

2.1 “Account” means an account established for the purpose of recording amounts credited on behalf of a Participant and any income, expenses, gains, losses or distributions included thereon. The Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant or to the Participant’s Beneficiary pursuant to the Plan.

2.2 “Administrator” means the Benefits Committee and/or its designee who is responsible for the administration of the Plan.

2.3 “Affiliate” means, with respect to any Person, any other Person that directly or indirectly controls, is controlled by, or is under common control with, such Person. For these purposes, “control” shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

2.4 “Beneficiary” means the persons, trusts, estates or other entities entitled under Section 8.2 to receive benefits under the Plan upon the death of a Participant.

2.5 “Board” or “Board of Directors” means the Board of Directors of the Plan Sponsor.

2.6 “Bonus” means any cash bonus payable by an Employer to an Eligible Employee (i) that does not constitute a Performance Bonus, and (ii) has been determined by the Administrator to be subject to a separate annual deferral election (including an initial deferral election) on the applicable deferral agreement.

2.7 “Carlyle Stockholders” means (i) Carlyle Partners IV AT Holdings, L.P. and (ii) any Permitted Transferee of Carlyle Partners IV AT Holdings, L.P. that hereafter acquires any shares of stock of the Plan Sponsor.

2.8 “Change in Control” means the occurrence of an event involving the Plan Sponsor that is described in Section 9.5.

2.9 “Code” means the Internal Revenue Code of 1986, as amended.

2.10 “Compensation” means (a) a Participant’s base salary, (b) amounts paid to a Participant within 1 month after the Participant’s severance from employment, to the extent these amounts absent a severance from employment, would have been paid to the Participant prior to the severance from employment if employment with the Employer had continued, (c) eligible salary continuation payments for Participants on an approved short term disability leave of absence, (d) pre-tax contributions and catch up

contributions under the Allison Transmission Salaried Employee Retirement Savings Plan as well as amounts contributed to the flexible benefits plan, but not flexible compensation contributions, (e) any Bonus that the Administrator has made subject to a separate annual deferral election (including an initial deferral election) on the applicable deferral agreement for such year and, (f) Performance Bonuses. Exclusions from Compensation include: (a) flexible compensation payments, (b) overtime and shift payments, (c) accrued vacation pay paid after severance from employment, (d) amounts paid for not working (i.e., sickness, accident and leave payments), (e) seven day operation premiums, (f) lump sum merit increases, (g) merit bonuses, (h) other bonuses, (i) other special payments, fees, awards or incentive compensation allowances, and/or (j) equity compensation.

2.11 “Compensation Committee” means the Compensation Committee of the Board of Directors of Allison Transmission Holdings, Inc.

2.12 “Current Onex Stockholders” means those entities set forth on Schedule 1.

2.13 “Disability” means a determination by the Administrator that the Participant is either (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer. A Participant will be considered to have incurred a Disability if he is determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board.

2.14 “Eligible Employee” means a select group of management or highly compensated employees of the Employer who are classified as executives in the payroll system, as defined under Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA. Eligible Employees will not include non-resident aliens who receive no earned income (within the meaning of Code Section 911(d)(2)) from the Employer which constitutes income from sources within the United States within the meaning of Code Section 861(a)(3).

2.15 “Employer” means the Plan Sponsor which is authorized to participate in the Plan.

2.16 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.17 “Identification Date” means each December 31, the date as of which Key Employees are determined.

2.18 “Key Employee” means an employee who satisfies the conditions set forth in Section 9.4.

2.19 “Onex Stockholders” means (i) the Current Onex Stockholders and (ii) any Permitted Transferee of the Current Onex Stockholders that hereafter acquires any shares of stock of the Plan Sponsor.

2.20 “Participant” means an Eligible Employee who has elected to make deferrals under the Plan, and/or has received Employer Contributions, and whose Account has not been fully distributed.

2.21 “Performance Bonus” means the cash portion of the gross annual bonus payable under the Plan Sponsor’s Allison Transmission, Inc. Career Incentive Compensation Program with respect to any performance period of at least twelve months; provided that such gross bonus constitutes “performance-based compensation” within the meaning of Code Section 409A(a)(2)(A)(v) and the regulations thereunder.

2.22 “Permitted Transferee” means (i) any Affiliate of the Carlyle Stockholders or the Onex Stockholders (other than the Plan Sponsor and its subsidiaries), and (ii) any director, officer or employee of any Affiliate of the Carlyle Stockholders or the Onex Stockholders (other than the Plan Sponsor and its subsidiaries).

2.23 “Person” means an individual, corporation, company, limited liability company, association, partnership, joint venture, organization, business, trust or any other entity or organization, including a government or any subdivision or agency thereof.

2.24 “Plan” means the Allison Transmission, Inc. Deferred Compensation Plan, including any trust agreement, as adopted by the Compensation Committee of the Board of Directors of Allison Transmission Holdings, Inc. and as amended from time to time.

2.25 “Plan Sponsor” means Allison Transmission, Inc.

2.26 “Plan Year” means June 22, 2012 through December 31, 2012, and January 1 through December 31, thereafter.

2.27 “Related Employer” means the Employer and (a) any corporation that is a member of a controlled group of corporations as defined in Code Section 414(b) that includes the Employer or (b) an unincorporated trade or business that is under common control as defined in Code Section 414(c) that includes the Employer.

2.28 “Retirement” means (a) age 55 and (b) 10 Years of Service.

2.29 “Separation from Service” means the date that the Participant dies, retires or otherwise has a termination of employment with respect to all entities comprising the Related Employer. A Separation from Service does not occur if the Participant is on military leave, sick leave or other bona fide leave of absence if the period of leave does not exceed six months or such longer period during which the Participant’s right to re-employment is provided by statute or contract. If the period of leave exceeds six

months and the Participant's right to re-employment is not provided either by statute or contract, a Separation from Service will be deemed to have occurred on the first day following the six-month period. If the period of leave is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where the impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a 29 month period of absence may be substituted for the six month period.

Whether a termination of employment has occurred is based on whether the facts and circumstances indicate that the Related Employer and the Participant reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Participant would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36 month period (or the full period of services to the Related Employer if the employee has been providing services to the Related Employer for less than 36 months).

An independent contractor is considered to have experienced a Separation from Service with the Related Employer upon the expiration of the contract (or, in the case of more than one contract, all contracts) under which services are performed for the Related Employer if the expiration constitutes a good-faith and complete termination of the contractual relationship.

If a Participant provides services as both an employee and an independent contractor of the Related Employer, the Participant must separate from service both as an employee and as an independent contractor to be treated as having incurred a Separation from Service. If a Participant ceases providing services as an independent contractor and begins providing services as an employee, or ceases providing services as an employee and begins providing services as an independent contractor, the Participant will not be considered to have experienced a Separation from Service until the Participant has ceased providing services in both capacities.

All determinations of whether a Separation from Service has occurred will be made in a manner consistent with Code Section 409A and the final regulations thereunder.

2.30 "Specified Date" means a "specified time (or pursuant to a fixed schedule)" within the meaning of Code Section 409A(a)(2)(A)(iv) and the regulations thereunder.

2.31 "Valuation Date" means each business day of the Plan Year that the New York Stock Exchange is open.

2.32 “Years of Service” means “Years of Credited Service” as defined under the Allison Transmission Salaried Employee Retirement Savings Plan.

ARTICLE 3 – PARTICIPATION

3.1 **Participation.** Only Eligible Employees may become Participants. An Eligible Employee shall become eligible to have amounts credited to his or her Account as of the date he or she becomes an "executive" as designated under the Plan Sponsor's payroll system, or the Original Effective Date of the Plan, if later.

An Eligible Employee shall become a Participant as of the date such amounts are credited to his or her Accounts, provided that he has completed such forms and made such elections as the Administrator may prescribe as a condition of participation.

3.2 **Termination of Participation.** The Administrator may, in its sole discretion, terminate a Participant's participation in the Plan in a manner consistent with Code Section 409A, and the regulations thereunder. If a Participant's participation is terminated before the Participant experiences a Separation from Service, the Participant's vested Accounts shall be paid in accordance with the provisions of Article 9.

ARTICLE 4 – PARTICIPANT ELECTIONS

4.1 Deferral Agreement. Each Eligible Employee may elect to defer his Compensation, Bonus, and/or Performance Bonuses separately by executing in writing or electronically, a deferral agreement in accordance with rules and procedures established by the Administrator and the provisions of this Article 4. Any Performance Bonus and/or other Bonus deferred under the Plan can be deferred from cash compensation only, and not from equity or other types of compensation.

A new deferral agreement must be timely executed for each Plan Year during which the Eligible Employee desires to defer Compensation. An Eligible Employee who does not timely execute a deferral agreement shall be deemed to have elected zero deferrals of Compensation, Bonus, and/or Performance Bonus (except as provided below for "Special Election for Performance Bonus Compensation") for such Plan Year.

A deferral agreement may be changed or revoked during the period specified by the Administrator. Except as provided in Section 4.3 and 9.2, a deferral agreement becomes irrevocable at the close of the specified period.

4.2 Amount of Deferral. An Eligible Employee may elect to defer his or her Compensation (exclusive of any Bonus or any Performance Bonus), in a minimum amount of 5% of Compensation, up to a maximum amount of 50% of Compensation, in 1% increments. Bonuses and Performance Bonuses may be deferred in a minimum amount of 5% , up to a maximum amount of 100% of the Performance Bonus and/or Bonus, in 1% increments.

4.3 Timing of Election to Defer.

Initial Election. Except as otherwise provided below, an Eligible Employee who is making an initial deferral election, and who is classified or designated as an Eligible Employee during a Plan Year, may elect to defer Compensation, and Bonus separately otherwise payable during the remainder of such Plan Year in accordance with the rules of this Section 4.3 by executing a deferral agreement within the thirty (30) day period beginning on the date the employee is classified or designated as an Eligible Employee (or, if earlier, within 30 days after the date on which he or she becomes eligible to participate in any other plan of a Related Employer that is required to be aggregated with this Plan for purposes of Code Section 409A).

Notwithstanding the preceding provisions, initial deferral elections made prior to June 30, 2012 will be implemented as soon as administratively feasible with respect to Compensation (other than Bonuses) payable on or after September 1, 2012. Initial deferral elections made prior to June 30, 2012, for Bonuses, will be prorated for the number of days after the election is effective.

If a deferral agreement is not elected within this 30 day time period the Eligible Employee will not be able to elect to defer Compensation, Bonuses and/or Performance Bonuses under the Plan until the next annual deferral election period.

If a Bonus is based on a specified performance period that begins before the Eligible Employee executes his initial deferral agreement, the election will be deemed to apply to the portion of such Bonus equal to the total amount of such Bonus for the performance period multiplied by the ratio of the number of days remaining in the performance period after the election becomes irrevocable and effective over the total number of days in the performance period. The rules of this paragraph shall not apply unless the Eligible Employee can be treated as initially eligible in accordance with Reg. Sec. 1.409A-2(a)(7).

Annual Deferral Election. Each Eligible Employee who desires to defer Compensation and/or Bonus otherwise payable during a Plan Year, must execute a deferral agreement within the period preceding the Plan Year specified by the Administrator.

Special Election for Performance Bonus Compensation. If the Performance Bonus can be treated as "performance-based compensation" as described in Code Section 409A(a)(4)(B)(iii), the deferral agreement may be executed within the period specified by the Administrator. This election period, in no event, shall end after the date which is six months prior to the end of the period during which the Performance Bonus is earned; provided the Participant has performed services continuously from the later of: (a) the beginning of the performance period or, (b) the date the performance criteria are established through the date the Participant executed the deferral agreement. Furthermore, the Compensation must not yet become 'readily ascertainable' within the meaning of Reg. Sec 1.409A-2(a)(8). In addition, if the Compensation qualifies as 'fiscal year compensation' within the meaning of Reg. Sec. 1.409A-2(a)(6), the deferral agreement may be entered into not later than the end of the Employer's taxable year immediately preceding the first taxable year of the Employer in which any services are performed for which such Compensation is payable.

4.4 Election of Payment Schedule and Form of Payment.

All elections of a payment schedule and a form of payment will be made in accordance with rules and procedures established by the Administrator and the provisions of this Section 4.4.

Deferrals. At the time an Eligible Employee completes a deferral agreement, the Eligible Employee must separately elect a "distribution event" and form of distribution designated for deferrals for Compensation, Bonuses and/or Performance Bonuses, as applicable, as of the earliest to occur of the following distribution events: (i) a Specified Date, in the form of a lump sum, or (ii) Retirement, in the form of a lump sum or quarterly installment payments not to

exceed 5 years. Once installment payments begin, except as otherwise required herein (e.g., Section 9.4) or prohibited by Code Section 409A, the following intervening payment events will accelerate any remaining installments, to be paid (in the form of a lump sum distribution) in accordance with Section 9.2: (1) death, (2) Disability, or (3) Change in Control.

Notwithstanding the above and regardless of whether the Participant made different elections of time and/or form of payment at the time of Separation from Service for purposes of Compensation, Bonuses, and/or Performance Bonuses, but subject to Section 9.5, payment of the remaining vested Account balance of the Participant will automatically occur in the form of a lump sum payment, in the event of (a) a Separation from Service prior to Retirement or a Specified Date, (b) Disability, or (c) death. See Article 9 for timing of such distributions. Except as otherwise required herein or by Code Section 409A and the final regulations thereunder, payments will be made as provided under Section 9.2, but in no event later than the time prescribed by Treas. Reg. Section 1.409A-3(d).

If an Eligible Employee fails to elect a distribution event for Compensation, Bonuses, and/or Performance Bonuses, he shall be deemed to have elected Separation from Service as the distribution event. If he fails to elect a form of payment, he shall be deemed to have elected a lump sum form of payment.

The minimum deferral period for a Specified Date event shall be 3 years for all Participant deferrals.

Employer Contributions. Employer Contributions shall be distributed in the form and under the timing provisions that are applicable to deferrals.

4.5 **Election Change.** To the extent permitted under Code Section 409A, a Participant may make an election change pursuant to this Section with respect to each scheduled distribution date and/or payment option previously elected by the Participant with respect to distribution of Compensation, and/or Bonuses, and/or Performance Bonuses. A Participant's election change pursuant to this Section shall be not be valid until 12 months after it is filed with the Administrator, and it shall be valid only (a) if it defers the original payment date for at least five years and, (b) if it changes an election for payment at a specified time or pursuant to a specified schedule, it is made at least 12 months before the original payment date. The distribution election change must be made in accordance with procedures and rules established by the Administrator. The Participant may, at the same time the date of payment is deferred, change the form of payment but such change in the form of payment may not effect an acceleration of payment in violation of Code Section 409A or the provisions of Reg. Sec. 1.409A-2(b). For purposes of this Section 4.5, a series of installment payments is always treated as a single payment and not as a series of separate payments.

ARTICLE 5 – EMPLOYER CONTRIBUTIONS

5.1 Matching Contributions. The Employer will credit the Participant's Account with a Matching Contribution in an amount determined by the Compensation Committee, and at such times determined by the Compensation Committee, in its sole discretion. The Matching Contribution will be treated as allocated to the Participant's Account at the time specified by the Administrator, in its sole discretion.

5.2 Other Employer Contributions. The Employer will credit the Participant's Account with an additional Employer Contribution in an amount determined by the Compensation Committee at such times determined by the Compensation Committee, in its sole discretion. The Employer Contribution will be treated as allocated to the Participant's Account at the time specified by the Administrator, in its sole discretion.

ARTICLE 6 – ACCOUNTS AND CREDITS

6.1 **Establishment of Account.** For accounting and computational purposes only, the Administrator will establish and maintain an Account on behalf of each Participant which will reflect the credits made pursuant to Section 6.2, distributions or withdrawals, along with the earnings, expenses, gains and losses allocated thereto, attributable to actual investments as selected by Participants made with the amounts in the Account as provided in Article 7. The Administrator will establish and maintain such other records and accounts, as it decides in its discretion to be reasonably required or appropriate to discharge its duties under the Plan.

6.2 **Credits to Account.** A Participant's Account will be credited for each Plan Year with: (a) the amount of his elective deferrals under Section 4.1 at the time the amount subject to the deferral election would otherwise have been payable to the Participant; and, (b) the amount of Employer Contributions treated as allocated on his behalf under Article 5.

ARTICLE 7 – INVESTMENT OF CONTRIBUTIONS

7.1 Investment Options. The amount credited to each Account shall be invested in the investment options designated for this purpose by the Allison Transmission, Inc. Investment Committee.

7.2 Adjustment of Accounts. The amount credited to each Account shall be adjusted for hypothetical investment earnings, expenses, gains or losses in an amount equal to the earnings, expenses, gains or losses attributable to the investment options selected by the Participant or Beneficiary from among the investment options provided in Section 7.1. A Participant (or the Participant's Beneficiary after the death of the Participant) may, in accordance with rules and procedures established by the Administrator, select the investments from among the options provided in Section 7.1 to be used for the purpose of calculating future hypothetical investment adjustments to the Account or to future credits to the Account under Section 6.2, effective as of the Valuation Date coincident with or next following notice to the Administrator. Each Account shall be adjusted as of each Valuation Date to reflect: (a) the hypothetical earnings, expenses, gains and losses described above; (b) amounts credited pursuant to Section 6.2; and (c) distributions or withdrawals. In addition, each Account may be adjusted for its allocable share of the hypothetical costs and expenses associated with the maintenance of the hypothetical investments provided in Section 7.1.

ARTICLE 8 – RIGHT TO BENEFITS

8.1 Vesting.

Deferrals. A Participant, at all times, has a 100% nonforfeitable interest in the amounts credited to his Account attributable to his elective deferrals made in accordance with Section 4.1.

Employer Contributions. A Participant's right to the amounts credited to his Account attributable to Matching Contributions and Other Employer Contributions made in accordance with Article 5, shall be vested at 100% after three Years of Service.

Retention or Other Special Bonuses or Other Employer Contributions Notwithstanding the preceding provisions, the Administrator may allocate Other Employer Contributions (such as a retention bonus) to the Plan on the condition that the Participant satisfy a separate vesting or service schedule (e.g., determined without regard to prior Years of Service) in addition to or in lieu of the vesting requirement referenced in the preceding sentence. In such instance, such additional vesting or service shall govern the Participant's right to such allocations. The form and timing of the distribution will be as set forth in the award agreement announcing such Other Employer Contribution; provided, however, that if the form and timing of the payment is not provided in the award agreement or such timing does not comply with Code Section 409A, then such Other Employer Contribution shall be distributed in the form of a lump sum payment upon the earlier of (a) death, (b) Disability or (c) Separation from Service, subject to Section 9.5. See Article 9 for timing of such distributions

Notwithstanding the provisions above in Section 8.1 under **Employer Contributions,** and regardless of the designation of timing and/or the form of payment set forth in the award agreement, a Participant's interest in his Account (including deferrals and Employer Contributions), will automatically become 100% vested, and will be paid out in the form of a lump sum payment upon the earlier of: (a) the Participant's death (see Section 8.2), (b) in the event of a Change in Control (see Section 9.5), or Disability (see Section 8.2).

Upon a Separation from Service, the Participant shall forfeit the nonvested portion of his Account, unless otherwise provided by the Compensation Committee.

8.2 Death or Disability. A Participant's nonvested interest in his Account will be automatically 100% vested upon the death or Disability of the Participant, and payment of the vested Account balance will occur upon the Participant's death or Disability in a lump sum payment, subject to the timing under Section 9.2, regardless of whether the Participant had made different elections of time and/or form of payment (even to the extent installment payments were previously elected or were previously in pay status). The determination of whether a

Participant has incurred a Disability shall be made by the Administrator, in its sole discretion, in a manner consistent with the requirements of Code Section 409A.

In the event of a death, Participant may designate a Beneficiary or Beneficiaries, or change any prior designation of Beneficiary or Beneficiaries in accordance with rules and procedures established by the Administrator. A copy of the death notice or other sufficient documentation must be filed with and approved by the Administrator. If upon the death of the Participant there is, in the opinion of the Administrator, no designated Beneficiary for part or all of the Participant's vested Account, such amount will be paid to the deceased Participant's spouse, but if none, to the deceased Participant's estate (such estate shall be deemed to be the Beneficiary for purposes of the Plan) in accordance with the provisions of Article 9.

ARTICLE 9 – DISTRIBUTION OF BENEFITS

9.1 **Amount of Benefits.** The vested amount credited to a Participant's Account as determined under Articles 6, 7 and 8 shall determine and constitute the basis for the value of benefits payable to the Participant under the Plan.

9.2 **Method and Timing of Distributions.** Except as otherwise provided in this Article 9, distributions under the Plan shall be made in accordance with the elections made or deemed made by the Participant under Article 4. There shall be a 6 month delay from the date of Separation from Service or Retirement, in the event of Separation from Service or Retirement (regardless of whether it is required under Section 9.4), with payments to commence as soon as administratively feasible within the month following the 6th month following the distribution event, but in no event later than the time prescribed by Treasury Regulation Section 1.409A-3(d). All other distributions under the Plan shall commence as soon as administratively feasible following the distribution event, but in no event later than the time prescribed by Treasury Regulation Section 1.409A-3(d).

9.3 **Cashouts Of Amounts Not Exceeding Stated Limit.** If the vested amount credited to the Participant's Account does not exceed $5,000.00 at the time he incurs a Separation from Service for any reason, the Employer shall distribute such amount to the Participant in a single lump sum cash payment following such Separation from Service, as soon as administratively feasible following the distribution event, but in no event later than the time prescribed by Treasury Regulation Section 1.409A-3(d).

9.4 **Required Delay in Payment to Key Employees.** Except as otherwise provided in this Section, a distribution made on account of Separation from Service (or Retirement, if applicable) to a Participant who is a Key Employee as of the date of his Separation from Service (or Retirement, if applicable) shall not be made before the date which is 6 months after the Separation from Service (or Retirement, if applicable). If payments to a Key Employee are delayed in accordance with this Section, the payments to which the Key Employee would otherwise have been entitled during the 6 month period shall be accumulated and paid in a single lump sum at the time specified in Section 9.2 after the 6 month period elapses.

(a) A Participant is treated as a Key Employee if (i) he is employed by a Related Employer any of whose stock is publicly traded on an established securities market, and (ii) he satisfies the requirements of Code Section 416(i)(1)(A)(i), (ii) or (iii), determined without regard to Code Section 416(i)(5), at any time during the 12 month period ending on the Identification Date.

(b) A Participant who is a Key Employee on an Identification Date shall be treated as a Key Employee for purposes of the 6 month delay in distributions for the 12 month period beginning on the first day of the fourth month following the Identification Date.

(c) The Plan Administrator may elect to apply an alternative method to identify Participants who will be treated as Key Employees for purposes of the 6 month delay in distributions if the method satisfies each of the following requirements. The alternative method is reasonably designed to include all Key Employees, is an objectively determinable standard providing no direct or indirect election to any Participant regarding its application, and results in either all Key Employees or no more than 200 Key Employees being identified in the class as of any date. Use of an alternative method that satisfies the requirements of this Section 9.4(c) will not be treated as a change in the time and form of payment for purposes of Reg. Sec. 1.409A-2(b).

(d) The 6 month delay does not apply to any other distribution events set forth in this Plan, including payments described in Section 9.7(a),(b) or (d).

9.5 Change in Control. In the event of a Change in Control, a Participant's vested interest in his Account, including deferrals and Employer Contributions, will automatically become 100% vested, and payment of the vested Account balance will occur upon the Change in Control in a lump sum payment (even to the extent installment payments were previously elected or were previously in pay status), subject to the timing of Section 9.2 and any required delay under Section 9.4. In addition, the Plan Sponsor reserves the right to terminate the Plan and distribute all vested amounts credited to Participant Accounts upon a Change in Control.

A Change in Control, for purposes of the Plan, will occur upon a change in the ownership of the Plan Sponsor, a change in the effective control of the Plan Sponsor, or a change in the ownership of a substantial portion of the assets of the Plan Sponsor; provided, that a transaction shall not be a Change in Control for purposes of the Plan if a change in the ownership of the Plan Sponsor, a change in the effective control of the Plan Sponsor, or a change in the ownership of a substantial portion of the assets of the Plan Sponsor results from the acquisition of Stock or assets by one or more Carlyle Stockholders or Onex Stockholders. The Plan Sponsor, for this purpose, includes any corporation identified in this Section.

Whether a Change in Control has occurred will be determined by the Administrator in accordance with the rules and definitions set forth in this Section and in a manner consistent with the provisions of Code Section 409A and the final regulations issued thereunder. A distribution to the Participant will be treated as occurring upon a Change in Control if the Plan Sponsor terminates the Plan in accordance with Section 10.2 and distributes the Participant's benefits within 12 months of a Change in Control as provided in Section 10.2.

(a) **Relevant Corporations.** To constitute a Change in Control for purposes of the Plan, the event must relate to (i) the corporation for whom the Participant is performing services at the time of the Change in Control, (ii) the corporation that is liable for the payment of the Participant's benefits under the Plan (or all corporations liable if more than one corporation is liable) but only if either the deferred compensation is attributable to the performance of services by the Participant for such corporation (or corporations) or there is a bona fide business purpose for such corporation (or corporations) to be liable for such payment and, in either case, no significant purpose of making such corporation (or corporations) liable for such payment is the avoidance of federal income tax, or (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii), or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii). A majority shareholder is defined as a shareholder owning more than fifty percent (50%) of the total fair market value and voting power of such corporation.

(b) **Stock Ownership.** Code Section 318(a) applies for purposes of determining stock ownership. Stock underlying a vested option is considered owned by the individual who owns the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). If, however, a vested option is exercisable for stock that is not substantially vested (as defined by Treasury Regulation Section 1.83-3(b) and (j)) the stock underlying the option is not treated as owned by the individual who holds the option.

(c) **Change in the Ownership of a Corporation.** A change in the ownership of a corporation occurs on the date that any one person or more than one person acting as a group, acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. If any one person or more than one person acting as a group is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation as discussed below in Section 9.5(d)). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock. Section 9.5(c) applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction. For purposes of this Section 9.5(c), persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the

same time or as a result of a public offering. Persons will, however, be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

(d) **Change in the effective control of a corporation.** A change in the effective control of a corporation occurs on the date that either (i) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing thirty percent (30%) or more of the total voting power of the stock of such corporation, or (ii) a majority of members of the corporation's board of directors is replaced during any twelve month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election, provided that for purposes of this paragraph (ii), the term corporation refers solely to the relevant corporation identified in Section 9.5(a) for which no other corporation is a majority shareholder for purposes of Section 9.5(a). In the absence of an event described in Section 9.5(d)(i) or (ii), a change in the effective control of a corporation will not have occurred. A change in effective control may also occur in any transaction in which either of the two corporations involved in the transaction has a change in the ownership of such corporation as described in Section 9.5(c) or a change in the ownership of a substantial portion of the assets of such corporation as described in Section 9.5(e). If any one person, or more than one person acting as a group, is considered to effectively control a corporation within the meaning of this Section 9.5(d), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control of the corporation or to cause a change in the ownership of the corporation within the meaning of Section 9.7(c). For purposes of this Section 9.5(d), persons will or will not be considered to be acting as a group in accordance with rules similar to those set forth in Section 9.7(c) with the following exception. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

(e) **Change in the ownership of a substantial portion of a corporation's assets.** A change in the ownership of a substantial portion of a corporation's assets occurs on the date that any one person, or more than one person acting as a group (as determined in accordance with rules similar to those set forth in Section 9.5(d)), acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation or the value of the assets being disposed of determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 9.5(e) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer. A transfer of assets by a corporation is not treated as a change in ownership of such assets if the assets are transferred to (i) a shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the corporation, (iii) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the corporation, or (iv) an entity, at least fifty (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 9.5(e)(iii). For purposes of the foregoing, and except as otherwise provided, a person's status is determined immediately after the transfer of assets.

9.6 Permissible Delays in Payment. Distributions may be delayed beyond the date payment would otherwise occur in accordance with the provisions of Articles 8 and 9 in any of the following circumstances as long as the Employer treats all payments to similarly situated Participants on a reasonably consistent basis.

(a) The Employer may delay payment if it reasonably anticipates that its deduction with respect to such payment would be limited or eliminated by the application of Code Section 162(m). Payment must be made during the Participant's first taxable year in which the Employer reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year the deduction of such payment will not be barred by the application of Code Section 162(m) or during the period beginning with the Participant's Separation from Service and ending on the later of the last day of the Employer's taxable year in which the Participant Separates from Service or, the 15th day of the third month following the Participant's Separation from Service. If a scheduled payment to a Participant is delayed in accordance with this Section 9.6(a), all scheduled payments to the Participant that could be delayed in accordance with this Section 9.6(a) will also be delayed.

(b) The Employer may also delay payment if it reasonably anticipates that the making of the payment will violate federal securities laws or other applicable laws provided payment is made at the earliest date on which the Employer reasonably anticipates that the making of the payment will not cause such violation.

(c) The Employer reserves the right to amend the Plan to provide for a delay in payment upon such other events and conditions as the Secretary of the Treasury may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.

9.7 Permitted Acceleration of Payment. The Employer may permit acceleration of the time or schedule of any payment or amount scheduled to be paid pursuant to a payment under the Plan provided such acceleration would be permitted by the provisions of Reg. Sec. 1.409A-3(j)(4), including the following events:

(a) **Domestic Relations Order.** A payment may be accelerated if such payment is made to an alternate payee pursuant to and following the receipt and qualification of a domestic relations order as defined in Code Section 414(p).

(b) **Compliance with Ethics Agreements and Legal Requirements.** A payment may be accelerated as may be necessary to comply with ethics agreements with the Federal government or as may be reasonably necessary to avoid the violation of Federal, state, local or foreign ethics law or conflicts of laws, in accordance with the requirements of Code Section 409A.

(c) **De Minimis Amounts.** A payment will be accelerated if (i) the amount of the payment is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), (ii) at the time the payment is made the amount constitutes the Participant's entire interest under the Plan and all other plans that are aggregated with the Plan under Reg. Sec. 1.409A-1(c)(2).

(d) **FICA Tax.** A payment may be accelerated to the extent required to pay the Federal Insurance Contributions Act tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2) of the Code with respect to compensation deferred under the Plan (the "FICA Amount"). Additionally, a payment may be accelerated to pay the income tax on wages imposed under Code Section 3401 of the Code on the FICA Amount and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. The total payment under this subsection (d) may not exceed the aggregate of the FICA Amount and the income tax withholding related to the FICA Amount.

(e) **Section 409A Additional Tax.** A payment may be accelerated if the Plan fails to meet the requirements of Code Section 409A; provided that such payment may not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A.

(f) **Offset.** A payment may be accelerated in the Employer's discretion as satisfaction of a debt of the Participant to the Employer, where such debt is incurred in the ordinary course of the service relationship between the Participant and the Employer, the entire amount of the reduction in any of the Employer's taxable years does not exceed $5,000, and the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.

(g) **Other Events.** A payment may be accelerated in the Administrator's discretion in connection with such other events and conditions as permitted by Code Section 409A.

ARTICLE 10 – AMENDMENT AND TERMINATION

10.1 Amendment. The Plan shall continue in force with respect to any Participant until the completion of any payments due hereunder and shall be binding upon any successor to the Employer. The Plan Sponsor reserves the right, in its sole discretion, to amend or modify the Plan in whole or in part, at any time, by action of the Vice President, Human Resources, and the Director of Employee Benefits and Pension Administration. Such amendment or modification shall be in writing and may be retroactive if and to the extent such action is appropriate in light of government regulations or other legal requirements. Notwithstanding the above, any amendment or modification that materially changes the benefits provided under the Plan or increases the costs of the Plan beyond that amount budgeted by the Plan Sponsor for the Plan Year, shall be made by the Compensation Committee. The Compensation Committee will also determine the amount of Matching Contributions and other Employer Contributions in its sole discretion. If an amendment is to provide that no additional benefits shall accrue with respect to any Participant under the Plan, no such amendment shall (a) deprive any Participant or Beneficiary of any benefit that accrued under the Plan before the adoption of such amendment; (b) result in an acceleration of benefit payments in violation of Code Section 409A and the guidance thereunder, or (c) result in any other violation of Section 409A or the guidance thereunder.

10.2 Plan Termination Following Change in Control or Corporate Dissolution. As set forth in Section 9.5, the Compensation Committee reserves the right to terminate the Plan and distribute all amounts credited to all Participant Accounts within the 30 days preceding or the 12 months following a Change in Control as determined in accordance with the rules set forth in Section 9.5. For this purpose, the Plan will be treated as terminated only if all agreements, methods, programs and other arrangements sponsored by the Related Employer immediately after the Change in Control which are treated as a single plan under Reg. Sec. 1.409A-1(c)(2) are also terminated so that all participants under the Plan and all similar arrangements are required to receive all amounts deferred under the terminated arrangements within 12 months of the date the Compensation Committee irrevocably takes all necessary action to terminate the arrangements. In addition, the Compensation Committee reserves the right to terminate the Plan within twelve months of a corporate dissolution taxed under Code Section 331 or with the approval of a bankruptcy court pursuant to 11 U. S. C. Section 503(b)(1)(A) provided that amounts deferred under the Plan are included in the gross incomes of Participants in the latest of (a) the calendar year in which the termination and liquidation occurs, (b) the first calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (c) the first calendar year in which payment is administratively practicable.

10.3 Other Plan Terminations. The Compensation Committee retains the discretion to terminate the Plan if (a) all arrangements sponsored by the Plan Sponsor that

would be aggregated with any terminated arrangement under Code Section 409A and Reg. Sec. 1.409A-1(c)(2) are terminated, (b) no payments other than payments that would be payable under the terms of the arrangements if the termination had not occurred are made within 12 months of the termination of the arrangements, (c) all payments are made within 24 months of the date the Compensation Committee takes all necessary action to irrevocably terminate and liquidate the arrangements, (d) the Plan Sponsor does not adopt a new arrangement that would be aggregated with any terminated arrangement under Code Section 409A and the regulations thereunder at any time within the 3 year period following the date of termination of the arrangement, and (e) the termination does not occur proximate to a downturn in the financial health of the Plan sponsor. The Compensation Committee also reserves the right to amend the Plan to provide that termination of the Plan will occur under such conditions and events as may be prescribed by the Secretary of the Treasury in generally applicable guidance published in the Internal Revenue Bulletin.

ARTICLE 11 – THE TRUST

11.1 **Establishment of Trust.** The Plan Sponsor may but is not required to establish a trust to hold amounts which the Plan Sponsor may contribute from time to time to correspond to some or all amounts credited to Participants under Section 6.2. In the event that the Plan Sponsor wishes to establish a trust to provide a source of funds for the payment of Plan benefits, any such trust shall be constructed to constitute an unfunded arrangement that does not affect the status of the Plan as an unfunded plan for purposes of Title I of ERISA and the Code.

11.2 **Rabbi Trust.** Any trust established by the Plan Sponsor shall be between the Plan Sponsor and a trustee pursuant to a separate written agreement under which assets are held, administered and managed, subject to the claims of the Plan Sponsor's creditors in the event of the Plan Sponsor's insolvency. The trust is intended to be treated as a rabbi trust in accordance with existing guidance of the Internal Revenue Service, and the establishment of the trust shall not cause the Participant to realize current income on amounts contributed thereto. The Plan Sponsor must notify the trustee in the event of a bankruptcy or insolvency.

11.3 **Investment of Trust Funds.** Any amounts contributed to the trust by the Plan Sponsor shall be invested by the trustee in accordance with the provisions of the trust and the instructions of the Administrator. Trust investments need not reflect the hypothetical investments selected by Participants under Section 7.1 for the purpose of adjusting Accounts, and the earnings or investment results of the trust need not affect the hypothetical investment adjustments to Participant Accounts under the Plan.

ARTICLE 12 – PLAN ADMINISTRATION

12.1 Powers and Responsibilities of the Administrator. The Administrator has the full power and the full responsibility to administer the Plan in all of its details, subject, however, to the applicable requirements of ERISA. The Administrator's powers and responsibilities include, but are not limited to, the following:

(a) To make and enforce such rules and procedures as it deems necessary or proper for the efficient administration of the Plan;

(b) To interpret the Plan, its interpretation thereof to be final, except as provided in Section 12.2, on all persons claiming benefits under the Plan;

(c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan;

(d) To administer the claims and review procedures specified in Section 12.2;

(e) To compute the amount of benefits which will be payable to any Participant, former Participant or Beneficiary in accordance with the provisions of the Plan;

(f) To determine the person or persons to whom such benefits will be paid;

(g) To authorize the payment of benefits;

(h) To comply with the reporting and disclosure requirements of Part 1 of Subtitle B of Title I of ERISA, as applicable;

(i) To appoint such agents, counsel, accountants, and consultants as may be required to assist in administering the Plan;

(j) By written instrument, to allocate and delegate its responsibilities, including the delegation to a committee to administer the Plan.

12.2 Claims and Review Procedures.

(a) Claims Procedure.

If any person believes he is being denied any rights or benefits under the Plan, such person may file a claim in writing with the Administrator. If any such claim is wholly or partially denied, the Administrator will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's review procedures and the time limits applicable to such procedures,

including a statement of the person's right to bring a civil action following an adverse decision on review. Such notification will be given within 90 days (45 days in the case of a claim regarding Disability) after the claim is received by the Administrator. The Administrator may extend the period for providing the notification by 90 days (30 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the claim and if written notice of such extension and circumstance is given to such person within the initial 90 day period (45 day period in the case of a claim regarding Disability). If such notification is not given within such period, the claim will be considered denied as of the last day of such period and such person may request a review of his claim.

(b) Review Procedure.

Within 60 days (180 days in the case of a claim regarding Disability) after the date on which a person receives a written notification of denial of claim (or, if written notification is not provided, within 60 days (180 days in the case of a claim regarding Disability) of the date denial is considered to have occurred), such person (or his duly authorized representative) may (i) file a written request with the Administrator for a review of his denied claim and of pertinent documents and (ii) submit written issues and comments to the Administrator. The Administrator will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The notification will explain that the person is entitled to receive, upon request and free of charge, reasonable access to and copies of all pertinent documents and has the right to bring a civil action following an adverse decision on review. The decision on review will be made within 60 days (45 days in the case of a claim regarding Disability). The Administrator may extend the period for making the decision on review by 60 days (45 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the request such as an election by the Administrator to hold a hearing, and if written notice of such extension and circumstances is given to such person within the initial 60-day period (45 days in the case of a claim regarding Disability). If the decision on review is not made within such period, the claim will be considered denied.

(c) Exhaustion of Claims Procedures and Right to Bring Legal Claim.

No action at law or equity shall be brought more than one (1) year after the Administrator's affirmation of a denial of a claim, or, if earlier, more than four (4) years after the facts or events giving rising to the claimant's allegation(s) or claim(s) first occurred.

12.3 Plan Administrative Costs. All reasonable costs and expenses (including legal, accounting, and employee communication fees) incurred by the Administrator in administering the Plan shall be paid by the Plan to the extent not paid by the Employer.

12.4 Indemnification. To the maximum extent permitted by applicable law, the Employer shall indemnify and hold harmless the Administrator, the Compensation Committee, any person serving on the Compensation Committee or a committee that serves as Administrator, and any officer, employee, or director of an Employer to whom any duty or power relating to the administration of the Plan has been properly delegated, from and against any cost, expense, or liability arising out of any act or omission in connection with the Plan, unless arising out of such person's own fraud or bad faith.

ARTICLE 13 – MISCELLANEOUS

13.1 Unsecured General Creditor of the Employer. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Employer. For purposes of the payment of benefits under the Plan, any and all of the Employer’s assets shall be, and shall remain, the general, unpledged, unrestricted assets of the Employer. Each Employer’s obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

13.2 Employer’s Liability. Each Employer’s liability for the payment of benefits under the Plan shall be defined only by the Plan and by the deferral agreements entered into between a Participant and the Employer. An Employer shall have no obligation or liability to a Participant under the Plan except as provided by the Plan and a deferral agreement or agreements. An Employer shall have no liability to Participants employed by other Employers.

13.3 Limitation of Rights. Neither the establishment of the Plan, nor any amendment thereof, nor the creation of any fund or account, nor the payment of any benefits, will be construed as giving to the Participant or any other person any legal or equitable right against the Employer, the Plan or the Administrator, except as provided herein; and in no event will the terms of employment or service of the Participant be modified or in any way affected hereby.

13.4 Anti-Assignment. Except as may be necessary to fulfill a domestic relations order within the meaning of Code Section 414(p), none of the benefits or rights of a Participant or any Beneficiary of a Participant shall be subject to the claim of any creditor. In particular, to the fullest extent permitted by law, all such benefits and rights shall be free from attachment, garnishment, or any other legal or equitable process available to any creditor of the Participant and his or her Beneficiary. Neither the Participant nor his or her Beneficiary shall have the right to alienate, anticipate, commute, pledge, encumber, or assign any of the payments which he or she may expect to receive, contingently or otherwise, under the Plan, except the right to designate a Beneficiary to receive death benefits provided hereunder. Notwithstanding the preceding, the benefit payable from a Participant’s Account may be reduced, at the discretion of the Administrator, to satisfy any debt or liability to the Employer.

13.5 Facility of Payment. If the Administrator determines, on the basis of medical reports or other evidence satisfactory to the Administrator, that the recipient of any benefit payments under the Plan is incapable of handling his affairs by reason of minority, illness, infirmity or other incapacity, the Administrator may direct the Employer to disburse such payments to a person or institution designated by a court which has jurisdiction over such recipient or a person or institution otherwise having the legal authority under State law for the care and control of such recipient. The receipt by such person or institution of any such

payments therefore, and any such payment to the extent thereof, shall discharge the liability of the Employer, the Plan and the Administrator for the payment of benefits hereunder to such recipient.

13.6 **Notices.** Any notice or other communication to the Employer or Administrator in connection with the Plan shall be deemed delivered in writing if addressed to the Plan Sponsor at the address specified by the Plan Sponsor and if either actually delivered at said address or, in the case or a letter, 5 business days shall have elapsed after the same shall have been deposited in the United States mails, first-class postage prepaid and registered or certified.

13.7 **Tax Withholding.** If the Employer concludes that tax is owing with respect to any deferral or payment hereunder, the Employer shall withhold such amounts from any payments due the Participant or from amounts deferred, as permitted by law, or otherwise make appropriate arrangements with the Participant or his Beneficiary for satisfaction of such obligation. Tax, for purposes of this Section 13.7 means any federal, state, local or any other governmental income tax, employment or payroll tax, excise tax, or any other tax or assessment owing with respect to amounts deferred, any earnings thereon, and any payments made to Participants under the Plan.

13.8 **Recoupment.** Notwithstanding any provision herein to the contrary, the portion of any Accounts maintained under this Plan that are attributable to Employer Contributions and any and all payments made or required to be made and pursuant to the Plan that are attributable to Employer Contributions shall be subject to repayment to the Plan Sponsor by the Participant or former Participant (and the successors, assigns, heirs, estate and personal representative of the Participant or former Participant) pursuant to the terms of any clawback, recoupment or other policy implemented from time to time by the Board or its designee, as amended (the “Recoupment Policy”). As additional consideration for any credits of Employer Contributions hereunder and any payments attributable thereto to any Participant, each Participant agrees that he/she is bound by and subject to the Recoupment Policy as in effect at any time and from time to time, as amended (whether before, at or after crediting of such Employer Contributions to such Participant’s Account).

13.9 **Successors.** The provisions of the Plan shall bind and inure to the benefit of the Plan Sponsor, the Employer and their successors and assigns and the Participant and the Participant’s designated Beneficiaries.

13.10 **Disclaimer.** It is the Plan Sponsor’s intention that the Plan comply with the requirements of Code Section 409A. Neither the Plan Sponsor nor the Employer shall have any liability to any Participant should any provision of the Plan fail to satisfy the requirements of Code Section 409A.

13.11 **Governing Law.** The Plan will be construed, administered and enforced according to the laws of the State of Indiana.

13.12 Other Plans. Amounts and benefits paid under the Plan shall not be considered compensation to the Participant for purposes of computing any benefits to which he may be entitled under any other pension or retirement plan maintained by the Employer.

SCHEDULE 1

CURRENT ONEX STOCKHOLDERS

Onex Partners II LP

Onex Advisor III LLC

Allison Executive Investco LLC

Onex Partners II GP LP

Onex American Holdings II LLC

Onex US Principals LP

Onex Allison Co-Invest LP

Onex Advisor Subco II LLC

OAH Wind LLC

Allison Executive Investco II LLC

Onex Advisor Subco LLC

Onex American Holdings Subco LLC

Onex Allison Holding Limited S.á.R.L.

1597257 Ontario Inc.

Exhibit 31.1

MANAGEMENT CERTIFICATION

I, Lawrence E. Dewey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allison Transmission Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) [not applicable]
    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: July 31, 2012

/s/ Lawrence E. Dewey

Name: Lawrence E. Dewey
Title: Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

MANAGEMENT CERTIFICATION

I, David S. Graziosi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allison Transmission Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) [not applicable]
    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 31, 2012

/s/ David S. Graziosi

Name: David S. Graziosi
Title: Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Allison Transmission Holdings, Inc. (the "Company") on Form 10-Q for the quarter ending June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Lawrence E. Dewey, Chairman, President and Chief Executive Officer of the Company, and David S. Graziosi, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350 as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 31, 2012

/s/ Lawrence E. Dewey
Lawrence E. Dewey
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Dated: July 31, 2012

/s/ David S. Graziosi
David S. Graziosi
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)