Allison Transmission Holdings Inc
Form 10-K
February 20, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

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)

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.

Large accelerated filer x	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 x

The aggregate market value of the voting and non-voting stock held by non-affiliates was approximately $5,148.6 million as of June 30, 2014.

As of February 5, 2015, there were 180,053,650 shares of Common Stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant s definitive Proxy Statement for its 2015 annual meeting of stockholders will be incorporated by reference in Part III of this Annual Report on Form 10-K.

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements. The words believe, expect, anticipate, inten 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: 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; risks related to our substantial indebtedness; 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 repurchase shares of our common stock; 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 I, Item 1A, Risk Factors in this Annual Report on Form 10-K. 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 other Securities and Exchange Commission filings or public communications. You should evaluate all forward-looking statements made in this Annual Report on Form 10-K in the context of these risks and uncertainties.

Certain Trademarks

This Annual Report on Form 10-K includes trademarks, such as Allison Transmission and ReTran, which are protected under applicable intellectual property laws and are our property and/or the property of our subsidiaries. This report also contains trademarks, service marks, copyrights and trade names of other companies, which are the property of their respective owners. We do not intend our use or display of other companies trademarks, service marks, copyrights or trade names to imply a relationship with, or endorsement or sponsorship of us by, any other companies. Solely for convenience, our trademarks and trade names referred to in this report may appear without the ® or symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

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PART I.

ITEM 1. Business

Overview

Allison Transmission Holdings, Inc. and its subsidiaries (Allison, the Company or we) design and manufacture commercial and defense fully-automatic transmissions. The business was founded in 1915 and has been headquartered in Indianapolis, Indiana since inception. Allison was an operating unit of General Motors Corporation (Old GM) from 1929 until 2007, when Allison once again became a stand-alone company. In March 2012, Allison began trading on the New York Stock Exchange under the symbol, ALSN .

We have approximately 2,700 employees and 13 different transmission product lines. Although approximately 80% percent of revenues were generated in North America in 2014, we have a global presence by serving customers in Europe, Asia, South America and Africa. We serve customers through an independent network of approximately 1,400 independent distributor and dealer locations worldwide.

Our Business

We are the world s largest manufacturer of fully-automatic transmissions for medium- and heavy-duty commercial vehicles and medium- and heavy-tactical U.S. defense vehicles. Allison transmissions are used 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 defense vehicles (wheeled and tracked). We estimate that globally, in 2014, we sold approximately 63% of all fully-automatic transmissions for medium- and heavy-duty on-highway commercial vehicle applications. We believe the Allison brand is one of the most recognized in our industry as a result of the performance, reliability and fuel efficiency of our transmissions and is associated with high quality, durability, vocational value, technological leadership and superior customer service.

We introduced the world s first fully-automatic transmission for commercial vehicles over 60 years ago. Since that time, we have driven the trend in North America and Western Europe towards increasing automaticity by targeting a diverse range of commercial vehicle vocations. Allison transmissions are optimized for the unique performance requirements of end users, which typically vary by vocation. Our products are highly engineered, requiring advanced manufacturing processes, and employ complex software algorithms for our transmission controls to maximize end user performance. We have developed over 100 different models that are used in more than 2,500 different vehicle configurations and are compatible with more than 500 combinations of engine brands, models and ratings (including diesel, gasoline, natural gas and other alternative fuels). In 2014, over 7,500 unique Allison-developed calibrations were used with our transmission control modules.

Our Industry

Commercial vehicles typically employ one of three transmission types: manual, automated manual transmissions (AMT) or fully-automatic. Manual transmissions are the most prevalent transmission type used in Class 8 tractors in North America and in medium- and heavy-duty commercial vehicles, generally, outside North America. Manual transmissions utilize a disconnect clutch causing power to be interrupted during each gear shift resulting in energy loss-related inefficiencies and less work being accomplished for a given amount of fuel consumed. In long-distance trucking, this power interruption is not a significant factor, as the manual transmission provides its highest degree of fuel economy during steady-state cruising. However, steady-state cruising is only one part of the duty cycle. When the duty cycle requires a high degree of start and stop activity or speed transients, as is common in many vocations as well as in urban environments, we believe manual transmissions result in reduced performance, lower fuel efficiency, lower average speed for a given amount of fuel consumed and inferior ride quality. Moreover, the clutches must be replaced regularly, resulting in increased maintenance expense and vehicle downtime. Manual transmissions also require a skilled driver to operate the disconnect clutch when launching the vehicle and shifting gears. AMTs are manual transmissions that feature automated operation of the disconnect clutch. Fully-automatic transmissions utilize technology that smoothly shifts gears instead of a disconnect clutch, thereby delivering uninterrupted power to the wheels during gear shifts and requiring minimal driver input. These transmissions deliver superior acceleration, higher productivity, increased fuel efficiency, reduced operating costs, less driveline shock and smoother shifting relative to both manual transmissions and AMTs in vocations with a high degree of start and stop activity, as well as in urban environments.

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Fuel efficiency, reduction in fuel consumption and greenhouse gas emissions are important considerations for commercial vehicles everywhere and they tend to go together. We believe fuel efficiency, the measure of work performed for a given amount of fuel consumed, is the best method to assess fuel consumption of commercial vehicles as compared to the more commonly-used fuel economy metric of miles-per-gallon (MPG). MPG is inadequate for commercial vehicles because it does not encompass two key elements of efficiency that we believe are important to vehicle owners and operators: payload and transport time. For example, if more work can be completed or more payload hauled using the same amount of fuel and/or over a shorter period of time, then we believe the vehicle is more fuel efficient. Since fuel economy and its MPG metric only accounts for distance traveled and fuel consumed, ignoring time and work performed, it is therefore an inferior metric to fuel efficiency when it comes to assessing commercial vehicles. Markets, regulations, policies and technology continue to evaluate these topics.

Our Served Markets

We sell our transmissions globally for use in medium- and heavy-duty on-highway commercial vehicles, off-highway vehicles and equipment and defense vehicles. In addition to the sale of transmissions, we also sell branded replacement parts, support equipment and other products necessary to service the installed base of vehicles utilizing our transmissions. The following table provides a summary of our business by end market, for the fiscal year ended December 31, 2014.

	NORTH AMERICA			**OUTSIDE NORTH AMERICA**			**SE PA SUI EQU**
RKET	**ON-HIGHWAY**	**HYBRID TRANSIT BUS**	**OFF-HIGHWAY**	**ON-HIGHWAY**	**OFF-HIGHWAY**	**DEFENSE**	**OT**
SALES (IN MILLIONS)	$988	$93	$100	$264	$81	$157	$
AL	47%	4%	5%	12%	4%	7%	
OSITION	#1 supplier of fully-automatic transmissions	A leading supplier of hybrid-propulsion systems	A leading independent supplier	#1 supplier of fully-automatic transmissions in China and India Established presence in Western Europe	A leading independent supplier	#1 supplier of transmissions for the U.S. Department of Defense	App 1,400 c and dis worldw
OR END USE	Distribution Emergency	Hybrid transit bus Hybrid shuttle bus	Energy Mining	Distribution Emergency	Energy Mining	Medium- and heavy-tactical wheeled platforms	Part Sup equipr

Refuse	Construction	Refuse	Construction	Tracked combat platforms	Ren transm
Construction	Specialty vehicle	Construction	Specialty vehicle		Flui
Utility		Utility			
School, transit, shuttle and coach buses		Transit, shuttle and coach buses			
Motorhome					
Metro tractors					

Refer to NOTE 18, Concentration of Risk and NOTE 22, Geographic Information in Part II, Item 8, of this Annual Report on Form 10-K for additional information on our significant original equipment manufacturer (OEM) customers and net sales by geographical areas.

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North America

On-Highway.

We are the largest manufacturer of fully-automatic transmissions for the on-highway medium- and heavy-duty commercial vehicle market in North America. The following is a summary of our on-highway net sales by vehicle class in North America.

Our core North American on-highway market includes Class 4-5, Class 6-7 and Class 8 straight trucks, conventional transit, shuttle and coach buses, school buses and motorhomes. Class 8 trucks are subdivided into two markets: straight and tractor. Class 8 straight trucks are those with a unified body (e.g., refuse, construction, and dump trucks), while tractors have a vehicle chassis that is separable from the trailer they pull. We have been supplying transmissions for Class 8 straight trucks for decades, and it is a core end market for us. Today, we have very limited exposure to the Class 8 tractor market because lower priced manual transmissions generally meet the needs of these vehicles which are primarily used in long distance hauling. However, we have identified a portion of the Class 8 tractor market that we call metro tractors that are used in urban environments the majority of the time. During 2013, we began production of a fully-automatic transmission (the TC10) that meets the unique duty cycle requirements of the Class 8 metro tractor market. Combining the startability and continuous, uninterrupted power qualities of a fully-automatic transmission with the cruising aspects of a manual transmission, the TC10 offers an alternative to traditional manual and automated manual transmissions in tractor applications.

We sell substantially all of our transmissions in the North American on-highway market to OEMs. These OEMs, in turn, install our transmissions in vehicles in which our transmission is either the exclusive transmission available or is specifically requested by end users who are choosing between a manual transmission, an AMT or a fully-automatic transmission. OEM customers representing approximately 90% of our 2014 North American on-highway unit volume participate in long-term supply agreements (LTSA) with us. Generally, these supply agreements offer the OEM customer defined levels of mutual commitment with respect to growing Allison s presence in the OEMs products and promotional efforts, pricing and sharing of commodity cost risk. The length of our customer agreements is typically between four and five years. We often compete in this market against independent manufacturers of manual transmissions, AMTs, fully-automatic transmissions manufactured by Ford Motor Company (Ford), ZF Friedrichshafen AG (ZF) and Voith GmbH (Voith), and against OEMs in certain weight classes that use their own internally manufactured transmissions in certain vehicles.

The following table presents a summary of our competitive position by vehicle class in the North America on-highway end market.

	CLASS 4-5 TRUCKS	CLASS 6-7 TRUCKS	CLASS 8 STRAIGHT TRUCKS	SCHOOL BUSES	MOTORHOMES
2014 Share	5%	74%	57%	95%	46%
	Ford			Ford	Ford

PRIMARY COMPETITION	Manual Transmissions AMTs Ford	Manual Transmissions AMTs	Voith ZF

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Hybrid Transit Buses.

The interest in conserving fuel and reducing greenhouse gas emissions is driving demand for more fuel efficient commercial vehicles. In North America, we sold approximately 73% of all units for the hybrid transit bus market in 2014. Our customers in this North American end market are typically city, state and federal governmental entities, which utilize government funds to subsidize a portion of the purchase price for the transit buses containing our hybrid-propulsion system. In this market, we compete primarily with BAE Systems plc (BAE).

Off-Highway.

We have provided products used in vehicles and equipment that serve energy, mining and construction applications in North America for over 50 years. Off-highway energy applications include hydraulic fracturing equipment, well-stimulation equipment, pumping equipment, and well-servicing rigs, which often use a fully-automatic transmission to propel the vehicle and drive auxiliary equipment. We maintain a leadership position in this end market, with nearly all producers of well-stimulation and well-servicing equipment utilizing our heavy duty off-highway transmissions. Additionally, we sell kits that can increase the horsepower of existing off-highway products. Competition includes Caterpillar, Inc. (Caterpillar) and Twin Disc, Inc. (Twin Disc).

We also provide heavy-duty transmissions used in mining trucks, specialty vehicles and construction vehicles. Mining applications include trucks used to haul various commodities and other products, including rigid dump trucks, underground trucks and long-haul tractor trailer trucks with load capacities between 40 to 110 tons. Our major competitors in this end market are Caterpillar and Komatsu, Ltd. (Komatsu), both of which are vertically integrated and manufacture fully-automatic transmissions for their own vehicles. Specialty vehicles using our heavy-duty transmissions include airport rescue and firefighting vehicles and heavy-equipment transporters. Construction applications include articulated dump trucks with Caterpillar, Volvo and ZF as competitors.

Outside North America

Outside North America we serve several different markets, including: Europe, Middle East, Africa (EMEA), Asia-Pacific, South America and India.

On-Highway.

We are the largest manufacturer of fully-automatic transmissions for the commercial vehicle market outside of North America. While the use of fully-automatic transmissions in the medium- and heavy-duty commercial vehicle market has been widely accepted in North America, the markets outside North America continue to be dominated by manual transmissions. In 2014, fully-automatic transmission-equipped medium- and heavy-duty commercial vehicles represented less than 5% of the vehicles in markets outside North America and are concentrated in certain vocational end markets. The following is a summary of our on-highway net sales by region outside of North America.

Europe, Middle East, Africa. EMEA is composed of several different markets, each of which differs significantly from our core North American market by the degree of market maturity, sophistication and acceptance of fully-automatic transmission technology. Within Europe, we serve Western European developed markets, as well as

Russian and Eastern European emerging markets, principally in the refuse, emergency, bus, coach, distribution and utility markets. Competition in Western Europe is most notably characterized by a high level of vertical powertrain integration with OEMs often utilizing their own manual transmissions and AMTs in their vehicles. The Middle East and Africa regions are generally characterized by very limited local vehicle production, with imports from the U.S., South America, Turkey, China, India and Europe accounting for the majority of vehicles.

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Asia-Pacific. Our key Asia-Pacific markets include China, Japan, Australia, and South Korea; however, we actively participate in several other important Asia-Pacific countries including Taiwan, Indonesia, Malaysia and Thailand, which are primarily importers of commercial vehicles. Within Asia-Pacific, our sales efforts are principally focused on the transit bus and vocational truck markets. Currently, manual transmissions are the predominant transmissions used in commercial vehicles in the Asia-Pacific region.

South America. The South American region is characterized by a high level of OEM integration, with captive manual transmission and AMT manufacturing. Currently, manual transmissions are the predominant transmissions used in commercial vehicles in South America.

India. Currently, manual transmissions are the predominant transmission used in commercial vehicles in India.

Off-Highway.

The following is a summary of our off-highway net sales by region outside of North America.

Europe, Middle East, Africa. Our off-highway markets in EMEA are mining and construction. Our major off-highway competitors are Caterpillar and Komatsu, both of which are vertically integrated manufacturers of off-highway mining vehicles, including the specific fully-automatic transmission used in their mining trucks. A typical construction application is the articulated dump truck, with competition from Caterpillar, Volvo and ZF transmissions.

Asia-Pacific. Off-highway markets in Asia are shared by energy, mining and construction applications. Our primary competitors are Caterpillar, Danyang Winstar Auto Parts Co. and Twin Disc in energy applications, Caterpillar and Komatsu in mining applications and Caterpillar, Volvo and ZF in construction applications.

Defense

We have a long-standing relationship with the U.S. Department of Defense (DOD), dating back to 1946, when we began developing our first-generation tank transmission. Today, we sell substantially all of the transmissions for medium- and heavy-tactical wheeled vehicle platforms including the Family of Medium Tactical Vehicles, Armored Security Vehicles, Heavy Expanded Mobility Tactical Trucks, Heavy Equipment Transporters, Palletized Loading Systems, M915 Series Trucks, Medium Tactical Vehicle Replacements and the Logistic Vehicle System Replacement. Additionally, we supplied transmissions for the majority of Mine-Resistant Ambush Protected (MRAP) Vehicles and the MRAP All-Terrain Vehicle and for all three potential manufacturers of the Joint Light Tactical Vehicles. Transmissions for our wheeled vehicle platforms are typically sold to OEMs.

We are also the supplier on two of the three key tracked vehicle platforms, the Abrams tank and the M113 family of vehicles, which are sold directly to the DOD. Additionally, we sell parts kits to licensees for the production of transmissions for tracked vehicles manufactured outside North America. Overall, we have seen the demand for U.S. defense vehicles decrease as the funding for defense vehicles declines. Additionally, the DOD budgets and supplemental spending have allowed them to recapitalize and reset many vehicle systems, which has reduced the average age of the fleet and the need to procure new vehicles.

Globally, we face competition for the supply of our transmissions in tracked defense vehicles primarily from L-3 Communications Corporation, Renk AG and ZF. Additionally, we face limited competition from Caterpillar in certain defense wheeled vehicle platforms.

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Service Parts, Support Equipment and Other

The aftermarket provides us with a relatively stable source of revenues as the installed base of vehicles and equipment utilizing our transmissions continues to grow. The need for replacement parts is driven by normal vehicle and equipment maintenance requirements and is not significantly impacted by economic cycles. Uninterrupted operation is generally critical for end users profitability. End users focus on getting the vehicle back in service, which in some cases results in the aftermarket purchase decision being less price-sensitive.

The sale of Allison-branded parts and fluids, remanufactured transmissions and support equipment is fundamental to our brand promise. We have assembled a worldwide network of approximately 1,400 independent distributor and dealer locations to sell, service and support our transmissions. As part of our brand strategy, our distributors and dealers are required to sell genuine Allison-branded parts. Within the aftermarket, we offer remanufactured transmissions under our ReTran brand, which provides a cost-effective alternative for transmission repairs and replacements. We also provide support equipment to our OEMs to assist in installing new Allison transmissions into vehicles, and, therefore, sales of support equipment are dependent upon sales of new transmissions.

Over the last few years, traditional aftermarket sales have been tempered by improvements in product quality and durability. While traditional aftermarket sales are expected to grow, support equipment sales fluctuate with the introduction of new transmissions. The competition for service parts and ReTran transmissions comes from a variety of smaller-scale companies sourcing non-genuine will-fit parts from unauthorized manufacturers. These will-fit parts often do not meet our product specifications, and therefore may be of lesser quality than genuine Allison parts.

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Our Product Offerings

Allison transmissions are sold under the Allison Transmission brand name and remanufactured transmissions are sold under the ReTran brand name. The following is a summary of our 13 transmission product lines.

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In addition to our current product offerings, we have other products and technologies under development, including hybrid-propulsion systems designed for use in medium- and heavy-duty commercial trucks and buses, higher horsepower fracturing transmissions for use in off-highway applications and fuel efficiency options for our on-highway products. During 2014, we recorded an impairment loss related to certain long-lived assets associated with the production of the H3000 and H4000 hybrid-propulsion systems. See NOTE 2 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional details.

Product Development and Engineering

We maintain product development and engineering capability dedicated to the design, development, refinement and support of our fully-automatic transmissions and hybrid-propulsion systems. We believe our customers expect our products to provide unparalleled performance and value defined in various ways, including delivering maximum cargo in minimum time, using the least amount of fuel possible while employing the fewest vehicles possible and experiencing maximum vehicle uptime. In response to those needs and the evolving customer focus on fuel efficiency, we provide vehicle specification guidelines, transmission control software and mechanical components to optimize fuel economy while delivering desired vehicle performance. Further, we are developing new technology and products to improve fuel efficiency and fuel economy by allowing engines to operate more efficiently and at lower speeds to avoid consuming fuel without compromising performance. Building on our engineering capabilities, we pioneered hybrid-propulsion in commercial vehicles and are developing new hybrid variants and alternative technologies for use in our global commercial vehicle markets. For the years ended December 31, 2014, 2013 and 2012, we have incurred $103.8 million, $97.1 million and $115.1 million of engineering research and development expense, respectively.

From time to time, we acquire certain licenses to provide us with technology to complement our portfolio of products and product initiatives, such as our engineering development agreement with Torotrak plc and our development agreement with Fallbrook Technologies, Inc. For the years ended December 31, 2014, 2013 and 2012, we have incurred $6.1 million, $6.0 million and $12.0 million, respectively, of engineering research and development expense related to technology-related licenses.

We maintain test tracks on our Indianapolis, Indiana campus and at our location in Szentgotthard, Hungary for vehicle drive, testing and calibration activities in addition to being a demonstration venue for customers. We also use test track facilities in New Carlisle, Indiana and Apache Junction, Arizona.

Sales and Marketing Organization

Our sales and marketing effort is organized along geographic and customer lines and is comprised of marketing, sales and service professionals, supported by application engineers worldwide. In North America, selling efforts in the on-highway end market are organized by distributor area responsibility, OEM sales and national accounts, for our large end users. Outside North America, we manage our sales, marketing, service and application engineering professionals through regional areas of responsibility. These regional management teams distribute OEM service and application engineering resources globally. We manage our defense products sales, marketing, service and application engineering through professionals based in Indianapolis, Indiana and Detroit, Michigan.

We have developed a marketing strategy to reach OEM customers as well as end users. We target our end users primarily through marketing activities by our sales staff, who directly call end users and attend local trade shows, targeting specific vocations globally and through our plant tour programs, where end users may test our products on the Indianapolis test track and our enhanced customer experience demonstration track at our Hungary facility.

While our marketing management uses the term customer interchangeably for OEMs and end users, the primary objective of our marketing strategy is to create demand for fully-automatic transmissions through:

- OEM promotion of our products and incorporation of fully-automatic transmissions in their commercial vehicle product offerings;

- Allison representative and/or Allison distributor contact with identified, major end users; and

- our network of independent dealers who contact other end users.

The process is interactive, as Allison representatives, Allison distributors and OEM dealers educate customers and respond to the specific applications, requirements and needs of numerous specialty markets.

Similarly, we work with customers, dealers and OEMs to educate, improve and simplify how they specify vehicles and vehicle systems in order to optimize vehicle performance and fuel consumption. Our field organization also works closely with distributors who, in turn, work with dealers to provide end users with education, parts, service and warranty support. The defense marketing group follows a defined plan that identifies country, vehicle and specific OEMs and then approaches the ultimate end user through a variety of channels.

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Manufacturing

Our manufacturing strategy provides for distributed capability in manufacturing and assembly of our products for the global commercial vehicle market. Our primary manufacturing facilities, located in Indianapolis, Indiana, consist of approximately 2.3 million square feet of usable manufacturing space in six plants. We also have established customization and parts distribution in the United States, The Netherlands, Brazil, China, Hungary, India and Japan, and plants in Chennai, India and Szentgotthard, Hungary. Our high volume on-highway products are produced in multiple global locations while off-highway, hybrid-propulsion and defense tracked products are produced in Indianapolis.

Suppliers and Raw Materials

A significant amount of the part numbers that make up our transmissions are purchased from outside suppliers, and during 2014, we purchased approximately $750.0 million of direct materials and components from outside suppliers. The largest elements of our direct spending are aluminum and steel castings and forgings that are formed by our suppliers into our larger components and assemblies for use in our transmissions. However, our spending on aluminum and steel raw materials directly and indirectly through our purchase of these components constituted approximately 10% of our direct material and component costs in 2014. The balance of our direct and indirect materials and components costs are primarily composed of value-added services and conversion costs. Our supply contracts, along with an intensive supplier selection and performance monitoring process, have enabled us to establish and maintain close relationships with suppliers and have contributed to our overall operating efficiency and industry-leading quality.

Intellectual Property

Patents and other proprietary rights are important to the continued success of our business. We also rely upon trade secrets, know-how, continuing technological innovation and licensing opportunities to develop and maintain our competitive position. We protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with suppliers, employees, consultants and others who may have access to proprietary information. We own 79 issued patents, and we have licensing arrangements with respect to more than 600 additional issued patents. We have more than 200 pending patent applications throughout the world that relate to aspects of the technology incorporated in many of our products.

In addition, in conjunction with the sale of Allison (the Acquisition Transaction) by Old GM, we acquired an irrevocable, royalty-free, worldwide license of more than 400 U.S. and foreign patents and patent applications, as well as certain unpatented technology and know-how, to manufacture, use and sell fully-automatic transmissions and certain hybrid-propulsion systems for use in vocational and defense vehicles and off-highway products. Such licenses are subject to certain limitations. See Part I, Item 1A, Risk Factors of this Annual Report on Form 10-K for a complete discussion of these risks and limitations. In addition, we acquired from Old GM an irrevocable, royalty-free, worldwide license under computer software programs that we use to run our business, including product design. Allison also acquired ownership of trademarks and copyrights relating to our business, subject in some cases to a non-exclusive license back to Old GM for use in connection with its existing six-speed A1000 transmission products, but only up to the termination of production of the A1000 transmission product by General Motors Company (GM), the successor to Old GM. GM has assumed Old GM s obligations under these agreements pursuant to an agreement between us and GM in which GM assumed certain contracts and agreements between us and Old GM (the Cure Agreement).

Seasonality

Overall, the demand for our products is relatively consistent over the year. However, in typical market conditions, the North American truck market experiences a higher level of production in the first half of the year due to fewer holidays and the practice of plant shutdowns in July and December. Working capital levels do not fluctuate significantly in the normal course for our business.

Employees

As of December 31, 2014, we had approximately 2,700 employees, with more than 90% of those employees in the U.S. Approximately 60% of our U.S. employees are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) and are subject to a collective bargaining agreement. In November 2012, we entered into a five year agreement with the UAW Local 933 that expires in November 2017. As approximately 50% of our represented employees are currently retirement eligible, we anticipate a shift toward increasing the number of second tier employees over the coming years. There have been no strikes or work stoppages due to Allison-specific issues in over 30 years.

Environmental Compliance

We are subject to a variety of federal, state, local and foreign environmental laws and regulations, including those governing the discharge of pollutants into the air or water, the management and disposal of hazardous substances or wastes, and the cleanup of contaminated sites. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution. These permits are subject to modification, renewal and revocation by issuing authorities. In addition, certain of our products and our customer s products are subject to certification requirements by a variety of regulatory bodies. We believe we are in substantial compliance with all material environmental laws and regulations applicable to our plants and operations. Historically, our costs of achieving and maintaining compliance with environmental, health and safety requirements have not been material to our results.

Increasing global efforts to control emissions of carbon dioxide, methane, ozone, nitrogen oxide (NOx) and other greenhouse gases and pollutants, as well as the shifting focus of regulatory efforts towards total emissions output, have the potential to impact our facilities, costs, products and customers. The U.S. Environmental Protection Agency (EPA) has taken action to control greenhouse gases from certain stationary and mobile sources. In addition, the U.S. Congress is considering proposals to limit greenhouse gas emissions, and several states have taken steps, such as adoption of cap and trade programs or other regulatory systems, to address greenhouse gases. There have also been international efforts seeking legally binding reductions in emissions of greenhouse gases. These developments and further actions that may be taken in the U.S. and in other countries, states or provinces could affect our operations both positively and negatively (e.g., by affecting the demand for or suitability of some of our products).

We also may be subject to liability as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act and similar state or foreign laws for contaminated properties that we currently own, lease or operate or that we or our predecessors have previously owned, leased or operated, and sites to which we or our predecessors sent hazardous substances. Such liability may be joint and several so that we may be liable for more than our share of contamination, and any such liability may be determined without regard to causation or knowledge of contamination. We or our predecessors have been named potentially responsible parties at contaminated sites from time to time. We do not anticipate our liabilities relating to contaminated sites will be material to our results.

Also, under the Asset Purchase Agreement, Old GM agreed to indemnify us against certain environmental liabilities, including pre-Acquisition Transaction offsite waste disposal from our facilities, former facilities associated with our business and any properties or facilities relating to our business that Old GM retained. While we are presently responsible for environmental liabilities that arise due to our post-Acquisition Transaction activities, GM, as successor to Old GM s obligations pursuant to the Cure Agreement, continues to perform remedial activities at our Indianapolis, Indiana manufacturing facilities relating to historical soil and groundwater contamination at the facilities. GM is performing such activities, which we refer to as the Corrective Action , pursuant to the Asset Purchase Agreement, whereby it retained responsibility for completing all obligations covered by a voluntary Corrective Action Agreement that Old GM entered with the EPA. Once the EPA determines that GM s remedial activities are complete and that the migration of any contamination is under control, we will assume responsibility for operating, monitoring and maintaining the ongoing Corrective Action activities and it is likely this will be performed under an agreed order of consent (AOC) with the EPA. It is likely that the AOC will require us to provide financial assurances to complete the operation, monitoring and maintenance activities in the event we fail to do so. This financial assurance can take a variety of forms including, but not limited to meeting certain financial metrics, providing a letter of credit, or securing a bond or an insurance policy. We have not yet established accruals for our expected future liability with respect to this activity, as we do not yet know the estimated cost. Once the EPA determines that GM s remedial activities are complete as described above, and we assume responsibility for operating, monitoring and maintaining the ongoing Corrective Action activities previously managed by GM, we will be responsible for all environmental liabilities that may arise at any of our properties, including with respect to contamination that may have occurred at our properties prior to the Acquisition Transaction. Additionally, there can be no assurances that GM will comply with its indemnity obligations or with its remedial obligations at the Indianapolis, Indiana manufacturing facilities, or that future environmental remediation obligations will not have a material adverse impact on our results.

Competition

We compete on the basis of product performance, quality, price, distribution capability and service in addition to other factors. We face competition from numerous manufacturers of various types of transmissions for commercial vehicles, such as manual transmissions, AMTs and fully-automatic transmissions. We also face competition from manufacturers in our international operations and from international manufacturers entering our domestic market. Furthermore, some of our customers are OEMs that manufacture transmissions for their own products. Despite their transmission manufacturing abilities, our existing OEM customers have chosen to purchase certain transmissions from us due to the quality, reliability and strong brand of our transmissions and in order to limit fixed costs, minimize production risks and maintain company focus on commercial vehicle design, production and marketing.

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Corporate Information

Allison Transmission Holdings, Inc. was incorporated in Delaware on June 22, 2007. Our principal executive offices are located at One Allison Way, Indianapolis, IN 46222 and our telephone number is (317) 242-5000. Our internet address is www.allisontransmission.com. We file annual, quarterly and current reports, proxy statements and other documents with the United States Securities and Exchange Commission (SEC), under the Securities Exchange Act of 1934, as amended (the Exchange Act). These periodic and current reports and all amendments to those reports are available free of charge on the investor relations page of our website at http://ir.allisontransmission.com.We have included our website address throughout this filing as textual references only. The information contained on our website is not incorporated into this Annual Report on Form 10-K. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

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ITEM 1A. Risk Factors

The following is a cautionary discussion of risks, uncertainties and assumptions that we believe are significant to our business. In addition to the factors discussed elsewhere in this Annual Report on Form 10-K, the following are some of the important factors that, individually or in the aggregate, we believe could make our actual results differ materially from those described in any forward-looking statements. It is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of risks, uncertainties and assumptions.

Risks Related to Our Business

We participate in markets that are competitive, and our competitors actions could have a material adverse effect on our business, results of operations and financial condition.

Our business operates in competitive markets. We compete against other global manufacturers on the basis of product performance, quality, price, distribution capability and service in addition to other factors. Actions by our competitors could lead to downward pressure on prices and/or a decline in our market share, either or both of which could adversely affect our results. We face competition from domestic manufacturers of manual transmissions, AMTs and fully-automatic transmissions for commercial vehicles. In particular, we could face competition from well-capitalized entrants into the transmission market, as well as from aggressive pricing tactics by other transmission manufacturers trying to gain market share. We also face competition from international manufacturers in our international markets and from international manufacturers entering our domestic market.

In addition, some of our customers or future customers are OEMs that manufacture or could in the future manufacture transmissions for their own products. Despite their transmission manufacturing abilities, our existing OEM customers have chosen to purchase certain transmissions from us due to customer demand, resulting from the quality of our transmission products and in order to reduce fixed costs, eliminate production risks and maintain company focus. However, we cannot be certain these customers will continue to purchase our products in the future. Increased levels of production insourcing by these customers could result from a number of factors, such as shifts in our customers business strategies, acquisition by a customer of another transmission manufacturer, the inability of third-party suppliers to meet specifications and the emergence of low-cost production opportunities in foreign countries. As a result, these OEMs may use transmissions produced internally or by another manufacturer and no longer choose to purchase transmissions from us. A significant reduction in the level of external sourcing of transmission production by our OEM customers could significantly impact our net sales and cash flows and, accordingly, have a material adverse effect on our business, results of operations and financial condition.

Certain of our end users operate in highly cyclical industries, which can result in uncertainty and significantly impact the demand for our products, which could have a material adverse effect on our business, results of operations and financial condition.

Some of the markets in which we operate, including energy, mining, construction, distribution and motorhomes, exhibit a high degree of cyclicality. Decisions to purchase our transmissions are largely a result of the performance of these and other industries we serve. If demand for output in these industries decreases, the demand for our products will likely decrease. Demand in these industries is impacted by numerous factors including prices of commodities, rates of infrastructure spending, housing starts, real estate equity values, interest rates, consumer spending, fuel costs, energy demands, municipal spending and commercial construction, among others. Increases or decreases in these variables globally may significantly impact the demand for our products, which could have a material adverse effect on our business, results of operations and financial condition. If we are unable to accurately predict demand, we may be unable to meet our customers needs, resulting in the loss of potential sales, or we may manufacture excess products, resulting in increased inventories and overcapacity in our production facilities, increasing our unit production cost and decreasing our operating margins.

Our long-term growth prospects and results of operations may be impaired if the rate of adoption of fully-automatic transmissions in commercial vehicles outside North America does not increase.

Our long-term growth strategy depends in part on an increased rate of automaticity outside North America. As part of that strategy, we have established manufacturing facilities in India and Hungary. We have also dedicated significant human resources to serve markets where we anticipate increased adoption of automaticity, including China, India, Brazil and Russia. However, manual transmissions remain the market leader outside North America and there can be no assurance that adoption of automatic transmissions will increase. Factors potentially impacting adoption of automatic transmissions outside of North America may include the large existing installed base of manual transmissions, customer preferences for manual transmissions, commercial vehicle OEM integration into manual transmission and AMT manufacturing, and failure to further develop the Allison brand. If the rate of adoption of fully-automatic transmissions does not increase as we have anticipated, our long-term growth prospects and results of operations may be impaired.

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Our sales are concentrated among our top five OEM customers and the loss or consolidation of any one of these customers or the discontinuation of particular vehicle models for which we are a significant supplier could reduce our net sales and have a materially adverse effect on our results of operations.

We have in the past and may in the future derive a significant portion of our net sales from a relatively limited number of OEM customers. For the years ended December 31, 2014, 2013 and 2012, our top five customers accounted for approximately 45%, 48% and 45% of our net sales, respectively. Our top two customers, Daimler and Navistar, accounted for approximately 17% and 10%, respectively, of our net sales during 2014. The commercial vehicle industry, including our customers and suppliers, continues to experience volatility and uncertainty. The loss of, or consolidation of any one of these customers, or a significant decrease in business from, one or more of these customers could harm our business. In addition, the discontinuation of particular vehicle models for which we are a significant supplier could reduce our net sales and have a material adverse effect on our results of operations.

Sales of our hybrid-propulsion systems have been, and may continue to be, negatively impacted by governmental entities electing not to subsidize the purchase of such products by end users and other external factors.

The sales of our hybrid-propulsion systems for use in transit buses have been, and may continue to be, negatively impacted by governmental entities electing not to subsidize the purchase of such products by end users. In 2014, we derived approximately 4% of our net sales from the sale of hybrid-propulsion systems for use in transit buses to city, state and federal governmental end users. Such end users may be eligible to receive certain subsidies as a result of their purchase of vehicles using hybrid-propulsion systems. For example, the Federal Transit Authority and the DOE provide funds for end users to pursue alternative fuel propulsion systems. While we do not directly receive these subsidies, if any of the subsidizing entities elect to curtail such subsidies to end users for any reason including governmental budget reductions and related fiscal matters, failure of our hybrid technology to qualify for such subsidies or redundancy by alternative technologies created by our competitors, our sales from our hybrid-propulsion systems may be negatively impacted. In addition, other external factors, including diesel and natural gas fuel price trends, emissions and on-board diagnostics regulatory requirements, availability of compatible engine calibrations from engine manufacturers and alternative emerging green technologies, have, and may continue to, negatively impact sales of our hybrid-propulsion systems. For the years ended December 31, 2014, 2013 and 2012, we experienced decreases in revenue generated from hybrid-propulsion systems for use in transit buses of 11%, 9% and 14%, respectively.

A majority of our sales to the defense end market are to U.S. government entities, and the loss of a significant number of our contracts, budgetary declines or future reductions or changes in U.S. government spending would have a material adverse effect on our results of operations and financial condition.

Our net sales to the defense end market are predominantly derived from contracts (revenue arrangements) with agencies of, and prime system contractors to, the U.S. government. If a significant number of our DOD contracts and subcontracts are simultaneously delayed or cancelled for budgetary, performance or other reasons, it would have a material adverse effect on our results of operations and financial condition. Approximately 7%, or $157 million, of our net sales for the year ended December 31, 2014 were made directly or indirectly to U.S. government agencies, including the DOD.

Sales in our defense end market have been, and we expect will continue to be, negatively impacted by declining DOD spending on wheeled and tracked vehicles. In addition to declines in defense budgets, our future financial results may be adversely affected by:

curtailment of the U.S. government s use of technology or other services and product providers, including curtailment due to government budget reductions, future government shutdowns and related fiscal matters;

geopolitical developments that affect demand for our products and services; and

technological developments that impact purchasing decisions or our competitive position.

Continued volatility in and disruption to the global economic environment could adversely affect the ability of customers and suppliers to obtain credit and may have a material adverse effect on our business, results of operations and financial condition.

The commercial vehicle industry as a whole has been more adversely affected by volatile economic conditions than many other industries, as the purchase or replacement of commercial vehicles, which are durable items, can be deferred for many reasons, including reduced spending by end users. Furthermore, financial instability or bankruptcy at any of our suppliers or customers could disrupt our ability to manufacture our products and impair our ability to collect receivables, any or all of which may have a material adverse effect on our business, results of operations and financial condition. In addition, some of our customers and suppliers may experience serious cash flow problems and, thus, may find it difficult to obtain financing, if financing is available at all. As a result, our customers need for and ability to purchase our products or services may decrease, and our suppliers may increase their prices, reduce their output or change their terms of sale. Any inability of customers to pay us for our products and services, or any demands by suppliers for different payment terms, may materially and adversely affect our results of operations and financial condition. Furthermore, our suppliers may not be successful in generating sufficient sales or securing alternate financing arrangements, and therefore may no longer be able to supply goods and services to us. In that event, we would need to find alternate sources for these goods and services, and there is no assurance we would be able to find such alternate sources on favorable terms, if at all. Any such disruption in our supply chain could adversely affect our ability to manufacture and deliver our products on a timely basis, and thereby affect our results of operations.

Any events that impact our brand name, including if the products we manufacture or distribute are found to be defective, could have an adverse effect on our reputation, cause us to incur significant costs and negatively impact our business, results of operations and financial condition.

We face exposure to product liability claims in the event that the use of our products has, or is alleged to have, resulted in injury, death or other adverse effects. We currently maintain product liability insurance coverage, but we cannot be assured that we will be able to obtain such insurance on acceptable terms in the future, if at all, or that any such insurance will provide adequate coverage against potential claims. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome. An unsuccessful product liability defense could have a material adverse effect on our business, results of operation, financial condition or prospects. If one of our products is determined to be defective, we may face substantial warranty costs and may be responsible for significant costs associated with a product recall or a redesign. We have had defect and warranty issues associated with certain of our products in the past, such as our H 40/50 EP hybrid-propulsion transit bus system, where certain units were falling short of their expected service life and we offered repair and replacement for an extended period. See NOTE 9 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional details regarding this warranty issue. We cannot give assurance similar product defects will not occur in the future.

Furthermore, our business depends on the strong brand reputation we have developed. In addition to the risk of defective products we face with our new product installations, we also face significant risks in our efforts to penetrate new markets, where we have limited brand recognition. We also rely on our reputation with end users of our transmissions to specify our transmissions when purchasing new vehicles from our OEM customers. In the event we are not able to maintain or enhance our brand in these new markets or our reputation is damaged in our existing markets as a result of product defects or recalls, we may face difficulty in maintaining our pricing positions with respect to some of our products or experience reduced demand for our products, which could negatively impact our business, results of operations and financial condition.

Our brand and reputation are dependent on the continued participation and level of service of our numerous independent distributors and dealers.

We work with a network of approximately 1,400 independent distributors and dealers that provide post-sale service and parts and support equipment. Because we depend on the pull-through demand generated by end users for our products, any actions by the independent distributors or dealers, which are not in our control, may harm our reputation and damage the brand loyalty among our customer base. In the event that we are not able to maintain our brand reputation because of the actions of our independent distributors and dealers, we may face difficulty in maintaining our pricing positions with respect to some of our products or have reduced demand for our products, which could negatively impact our business, results of operations and financial condition. In addition, if a significant number of independent dealers were to terminate their contracts, it could adversely impact our business, results of operations and financial condition.

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We may not be successful in introducing our new products and responding to customer needs.

We recently began production of the TC10 and currently have additional new products and technologies under development. The development of new products and technologies is difficult and the timetable for commercial release is uncertain, and we may not be successful in introducing our new products and responding to customer needs. In addition, it often takes significant time, in some cases multiple fleet buy cycles, before customers gain experience with new products and technologies and those new products and technologies become widely-accepted by the market. If we do not adequately anticipate the changing needs of our customers by developing and introducing new and effective products and technologies on a timely basis, our competitive position and prospects could be harmed. If our competitors are able to respond to changing market demands and adopt new technologies more quickly than we do, demand for our products could decline, our competitive position could be harmed, and we will not be able to recoup a return on our development investments. Moreover, changing customer demands as well as evolving safety and environmental standards could require us to adapt our products and technologies to address such changes. As a result, in the future we may experience delays in the introduction of some or all of our new products or modifications or enhancements of existing products. Furthermore, there may be production delays due to unanticipated technological setbacks, which may, in turn, delay the release of new products to our end users. If we experience significant delays in production, our net sales and results of operations may be materially adversely affected.

Our success depends on continued research and development efforts, the outcome of which is uncertain.

Our success depends on our ability to improve the efficiency and performance of our transmissions, and we invest significant resources in research and development in order to do so. Nevertheless, the research and development process is time-consuming and costly, and offers uncertain results. We may not be able through our research and development efforts to keep pace with improvements in transmission-related technology of our competitors, and licenses for technologies that would enable us to keep pace with our competitors may not be available on commercially reasonable terms if at all. Finally, our research and development efforts, and generally our ability to introduce improved products in the marketplace, may be constrained by the patents and other intellectual property rights of competitors and others.

Our international operations, in particular our emerging markets, are subject to various risks which could have a material adverse effect on our business, results of operations and financial condition.

Our business is subject to certain risks associated with doing business internationally, particularly in emerging markets. Outside-North America net sales represented approximately 20% of our net sales for 2014. Most of our operations are in the U.S., but we also have manufacturing and customization facilities in India and Hungary with a services agreement with Opel Szentgotthard Automotive Manufacturing Ltd., formerly GM-PTH, and customization capability in Brazil, The Netherlands, China and Japan. Further, we intend to continue to pursue growth opportunities for our business in a variety of business environments outside the U.S., which could exacerbate the risks set forth below. Our international operations are subject to, without limitation, the following risks:

- the burden of complying with multiple and possibly conflicting laws and any unexpected changes in regulatory requirements;

- foreign currency exchange controls, import and export restrictions and tariffs, including restrictions promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, and other trade protection regulations and measures;

political risks, including risks of loss due to civil disturbances, acts of terrorism, acts of war, guerilla activities and insurrection;

unstable economic, financial and market conditions and increased expenses as a result of inflation, or higher interest rates;

difficulties in enforcement of third-party contractual obligations and intellectual property rights and collecting receivables through foreign legal systems;

difficulty in staffing and managing international operations and the application of foreign labor regulations;

differing local product preferences and product requirements;

fluctuations in currency exchange rates to the extent that our assets or liabilities are denominated in a currency other than the functional currency of the country where we operate;

potentially adverse tax consequences from changes in tax laws, requirements relating to withholding taxes on remittances and other payments by subsidiaries and restrictions on our ability to repatriate dividends from our subsidiaries; and

exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act (FCPA) and similar laws and regulations in other jurisdictions.

Any one of these factors could materially adversely affect our sales of products or services to international customers or harm our reputation, which could have a material adverse effect on our business, results of operations and financial condition.

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Our international operations require us to comply with anti-corruption laws and regulations of the U.S. government and various international jurisdictions.

Doing business on a worldwide basis requires us and our subsidiaries to comply with the laws and regulations of the U.S. government and various international jurisdictions, and our failure to comply with these rules and regulations may expose us to liabilities. These laws and regulations may apply to companies, individual directors, officers, employees and agents, and may restrict our operations, trade practices investment decisions and partnering activities. In particular, our international operations are subject to U.S. and foreign anti-corruption laws and regulations, such as the FCPA. The FCPA prohibits U.S. companies and their officers, directors, employees and agents acting on their behalf from corruptly offering, promising, authorizing or providing anything of value to foreign officials for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The FCPA also requires companies to make and keep books, records and accounts that accurately and fairly reflect transactions and dispositions of assets and to maintain a system of adequate internal accounting controls. As part of our business, we deal with state-owned business enterprises, the employees and representatives of which may be considered foreign officials for purposes of the FCPA. In addition, some of the international locations in which we operate lack a developed legal system and have elevated levels of corruption. As a result of the above activities, we are exposed to the risk of violating anti-corruption laws. Violations of these legal requirements are punishable by criminal fines and imprisonment, civil penalties, disgorgement of profits, injunctions, debarment from government contracts as well as other remedial measures. We have established policies and procedures designed to assist us and our personnel in complying with applicable U.S. and international laws and regulations. However, our employees, subcontractors and agents could take actions that violate these requirements, which could adversely affect our reputation, business, financial condition and results of operations.

Labor unrest could have a material adverse effect on our business, results of operations and financial condition.

As of December 31, 2014, approximately 60% of our U.S. employees, representing over 50% of our total employees, were represented by the UAW and are subject to a collective bargaining agreement. In November 2012, we reached an agreement on a new five-year collective bargaining agreement with the UAW Local 933, which is effective through November 2017.

In addition to our unionized work force, many of our direct and indirect customers and vendors have unionized work forces. Strikes, work stoppages or slowdowns experienced by these customers or vendors or their other suppliers could result in slowdowns or closings of assembly plants that use our products or supply materials for use in the production of our products. Organizations responsible for shipping our products may also be impacted by strikes. Any interruption in the delivery of our products could reduce demand for our products and could have a material adverse effect on us.

In general, we consider our labor relations with all of our employees to be good. However, in the future we may be subject to labor unrest. The inability to reach a new agreement could delay or disrupt our operations in the affected regions, including the acquisition of raw materials and components, the manufacture, sales and distribution of products and the provision of services. If strikes, work stoppages or lock-outs at our facilities or at the facilities of our vendors or customers occur or continue for a long period of time, our business, results of operations and financial condition may be materially adversely affected.

In the event of a catastrophic loss of our key manufacturing facility, our business would be adversely affected.

While we manufacture our products in several facilities and maintain insurance covering our facilities, including business interruption insurance, a catastrophic loss of the use of all or a portion of one of our manufacturing facilities due to accident, labor issues, weather conditions, acts of war, political unrest, terrorist activity, natural disaster or otherwise, whether short- or long-term, would have a material adverse effect on our business, results of operations and financial condition. Our most significant concentration of manufacturing is around our corporate headquarters in Indianapolis, Indiana where we produce approximately 90% of our transmissions. In addition to our Indianapolis manufacturing facilities, we currently operate manufacturing facilities in both Szentgotthard, Hungary and Chennai, India. In the event of a disruption at the Indianapolis facilities, they may not be adequately equipped to operate at a level sufficient to compensate for the volume of production at the Indianapolis facility due to their size and the fact that they have not yet been tested for such significant increases in production volume.

Increases in cost, disruption of supply or shortage of raw materials or components used in our products could harm our business and profitability.

Our products contain various raw materials, including corrosion-resistant steel, non-ferrous metals such as aluminum and nickel, and precious metals such as platinum and palladium. We use raw materials directly in manufacturing and in transmission components that we purchase from our suppliers. We generally purchase components with significant raw material content on the open market. The prices for these raw materials fluctuate depending on market conditions. Volatility in the prices of raw materials such as steel, aluminum and nickel could increase the cost of manufacturing our products. We may not be able to pass on these costs to our customers, and this could have a material adverse effect on our business, results of operations and financial condition. Even in the event that increased costs can be passed through to customers, our gross margin percentages would decline. Additionally, our suppliers are also subject to fluctuations in the prices of raw materials and may attempt to pass all or a portion of such increases on to us. In the event they are successful in doing so, our margins would decline.

In 2014, approximately 75% of our total spending on components was sourced from approximately 40 suppliers. All of the suppliers from which we purchase materials and components used in our business are fully validated suppliers, meaning the suppliers manufacturing processes and inputs have been validated under a production part approval process (PPAP). Furthermore, there are only a limited number of suppliers for certain of the materials used in our business, such as corrosion-resistant steel. As a result, our business is subject to the risk of additional price fluctuations and periodic delays in the delivery of our materials or components if supplies from a validated supplier are interrupted and a new supplier must be validated or materials and components must be purchased from a supplier without a completed PPAP. Any such price fluctuations or delays, if significant, could harm our profitability or operations. In addition, the loss of a supplier could result in significant material cost increases or reduce our production capacity. We also cannot guarantee we will be able to maintain favorable arrangements and relationships with these suppliers. An increase in the cost or a sustained interruption in the supply or shortage of some of these raw materials or components that may be caused by a deterioration of our relationships with suppliers or by events such as natural disasters, power outages, labor strikes, or the like could negatively impact our business, results of operations and financial condition. Although we have agreements with many of our customers that we will pass such price increases through to them, such contracts may be cancelled by our customers and/or we may not be able to recoup the costs of such price increases. Additionally, if we are unable to continue to purchase our required quantities of raw materials on commercially reasonable terms, or at all, if we are unable to maintain or enter into purchasing contracts for commodities, or if delivery of materials from suppliers is delayed or non-conforming, our operations could be disrupted or our profitability could be adversely impacted.

Our business and financial results may be adversely affected by government contracting risks.

We are subject to various laws and regulations applicable to parties doing business with the U.S. government, including laws and regulations governing performance of U.S. government contracts, the use and treatment of U.S. government furnished property and the nature of materials used in our products. We may be unilaterally suspended or barred from conducting business with the U.S. government, or become subject to fines or other sanctions if we are found to have violated such laws or regulations. As a result of the need to comply with these laws and regulations, we are subject to increased risks of governmental investigations, civil fraud actions, criminal prosecutions, whistleblower law suits and other enforcement actions. The laws and regulations to which we are subject include, but are not limited to, Export Administration Regulations, Federal Acquisition Regulation, International Traffic in Arms Regulations, Foreign Assets Control documentation and regulations from the Bureau of Alcohol, Tobacco and Firearms and the FCPA.

U.S. government contracts are subject to modification, curtailment or termination by the U.S. government without prior written notice, either for convenience or for default as a result of our failure to perform under the applicable contract. If terminated by the U.S. government as a result of our default, we could be liable for additional costs the U.S. government incurs in acquiring undelivered goods or services from another source and any other damages it suffers. Additionally, we cannot assign prime U.S. government contracts without the prior consent of the U.S. government contracting officer, and we are required to register with the Central Contractor Registration Database. Furthermore, the U.S. government periodically audits our governmental contract costs, which could result in fines, penalties or adjustment of costs and prices under the contracts.

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Many of the key patents and unpatented technology we use in our business are licensed to us, not owned by us, and our ability to use and enforce such patents and technology is restricted by the terms of the license.

Protecting our intellectual property rights is critical to our ability to compete and succeed as a company. In connection with the Acquisition Transaction, under the patent and technology license agreement (the Patent and Technology License Agreement), which was assumed by GM pursuant to the Cure Agreement, we were granted an irrevocable, perpetual, royalty-free, worldwide license under a large number of U.S. and foreign patents and patent applications, as well as certain unpatented technology and know-how, to design, develop, manufacture, use and sell fully-automatic transmissions and H 40/50 EP hybrid-propulsion transit bus systems for use in certain vocational vehicles, defense vehicles and off-road products. With respect to the bulk of the intellectual property licensed to us under such license agreement, our license is exclusive with respect to the design, development, manufacture, use and sale of fully-automatic transmissions and H 40/50 EP hybrid-propulsion transit bus systems in vocational vehicles above certain weight rating thresholds, certain defense vehicles and certain off-road products. It is non-exclusive with respect to certain other products that are within the scope of the licensed patents or to which the licensed technology can be applied. We consider the patents and technology licensed under such license agreement, as a whole, to be critical to preserving our competitive position in the market. However, GM continues to own such patents and technology, and pursuant to the terms of such license agreement, GM has the right, in the first instance, to control the maintenance, enforcement and defense of such patents and the prosecution of the licensed patent applications. In addition, the license agreement limits our ability to sublicense our rights. The Patent and Technology License Agreement permits us to utilize the bulk of the intellectual property rights on an exclusive basis in non-defense vehicles with gross vehicle weights above 5900 kilograms (typically Class 4 and higher) with some limited exceptions for GM light-duty pickup truck and van platforms. It also permits us to utilize the bulk of the intellectual property rights on an exclusive basis in defense vehicles that exceed 4250 kilograms (generally Class 3 to Class 4 and higher). GM continues to have the right under such patents and technology to utilize the licensed intellectual property for use in vehicles below the above mentioned rating thresholds, as well as in some light-duty van and pickup truck platforms.

We rely on unpatented technology, which exposes us to certain risks.

We currently do, and may continue in the future to, rely on unpatented proprietary technology. In such regard, we cannot be assured that any of our applications for protection of our intellectual property rights will be approved or that others will not infringe or challenge our intellectual property rights. It is possible our competitors will independently develop the same or similar technology or otherwise obtain access to our unpatented technology.

Although we believe the loss or expiration of any single patent would not have a material effect on our business, results of operations or financial position, there can be no assurance that any one, or more, of the patents licensed from GM, or any other intellectual property owned by or licensed to us, will not be challenged, invalidated or circumvented by third parties. In fact, a number of the patents licensed to us by GM have expired since the date of the Acquisition Transaction, and others are set to expire in the next few years. When a patent expires, the inventions it discloses can be used freely by others. Thus, the competitive advantage that we gain from the patents licensed to us from GM pursuant to the Acquisition Transaction will decrease over time, and a greater burden will be placed on our own research and development and licensing efforts to develop and otherwise acquire technologies to keep pace with improvements of transmission-related technology in the marketplace. We enter into confidentiality and invention assignment agreements with employees, and into non-disclosure agreements with suppliers and appropriate customers so as to limit access to and disclosure of our proprietary information. We cannot be assured that these measures will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure. If we are unable to maintain the proprietary nature of our technologies, our ability to sustain margins on some or all of our products may be affected, which could reduce our sales and profitability. Moreover, the protection provided for our intellectual property by the laws and courts of foreign nations may not be as advantageous to us as the protection available under U.S. law.

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Our pension funding obligations could increase significantly due to a reduction in funded status as a result of a variety of factors.

Our earnings may be positively or negatively impacted by the amount of income or expense recorded for our defined benefit pension plans and other post-retirement benefits (OPEB). Accounting principles generally accepted in the United States of America (GAAP) requires that income or expense for defined benefit pension plans be calculated at the annual measurement date using actuarial assumptions and calculations. These calculations reflect certain assumptions, the most significant of which relate to the capital markets, interest rates and other economic conditions. Changes in key economic indicators can change these assumptions. These assumptions, along with the actual value of assets at the measurement date, will impact the calculation of pension expense for the year. Although GAAP pension expense and pension contributions are not directly related, the key economic indicators that affect GAAP pension expense also affect the amount of cash that we would contribute to our defined benefit pension plans. Because the values of these defined benefit pension plans assets have fluctuated and will fluctuate in response to changing market conditions, the amount of gains or losses that will be recognized in subsequent periods, the impact on the funded status of the defined benefit pension plans and the future minimum required contributions, if any, could have a material adverse effect on our business, results of operations and financial condition. The magnitude of such impact cannot be determined with certainty at this time. However, the effect of a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2014 defined benefit pension plans obligation of approximately $20.0 million. Likewise, a one percentage point decrease in the effective interest rate for determining defined benefit pension plans contributions would result in an increase in the minimum required contributions for 2015 of approximately $4.0 million. Similarly, a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2014 OPEB obligation of approximately $23.7 million. As of December 31, 2014 the funded (unfunded) status of our defined benefit pension plans and OPEB plan was $1.8 million and ($136.0) million, respectively.

Environmental, health and safety laws and regulations may impose significant compliance costs and liabilities on us.

We are subject to many environmental, health and safety laws and regulations governing emissions to air, discharges to water, the generation, handling and disposal of waste and the cleanup of contaminated properties. Compliance with these laws and regulations is costly. We have incurred and expect to continue to incur significant costs to maintain or achieve compliance with applicable environmental, health and safety laws and regulations. Moreover, if these environmental, health and safety laws and regulations become more stringent or expand to include a larger portion of our products or our customer s products in the future, we could incur additional costs in order to ensure that our business and products comply with such regulations. In addition, we may not be successful in complying with or the vehicle or customer OEMs to which we sell our products may choose not to comply with such laws and regulations, which could impact our ability to sell our products in certain locations. Furthermore, if our products that are already placed in service are found to be non-compliant with certain laws, regulations and certifications, we may incur additional costs and fines. We cannot assure we are in full compliance with all environmental, health and safety laws and regulations. Our failure to comply with applicable environmental, health and safety laws and regulations and permit requirements could result in civil or criminal fines, penalties or enforcement actions, third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control equipment or remedial actions. Our failure to comply could also result in our failure to secure adequate insurance for our business, resulting in significant exposure, diminished ability to hedge our risks and material modifications of our business operations.

We may be subject to liability as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act and similar state or foreign laws for contaminated properties that we currently own, lease or operate or that we or our predecessors have previously owned, leased or operated, and sites to which we or our predecessors sent hazardous substances. Such liability may be joint and several so that we may be liable for more than our share of contamination, and any such liability may be determined without regard to causation or knowledge of contamination. We or our predecessors have been named potentially responsible parties at contaminated sites from time to time.

GM continues to perform the Corrective Action post-Acquisition Transaction pursuant to the Asset Purchase Agreement, whereby it retained responsibility for completing all obligations covered by a voluntary Corrective Action Agreement that Old GM entered with the EPA. GM retained responsibility for completing the Corrective Action and agreed to indemnify us against certain environmental liabilities as successor to Old GM s obligations pursuant to the Cure Agreement. Once GM has received notification from EPA that the Corrective Action obligations are complete, subject to controls, we will assume responsibility for maintaining the ongoing operating, monitoring and maintenance activities required by the EPA. It is likely this will be performed under an AOC with the EPA. The costs for these activities may be material. See Part I, Item 1, Business Environmental Compliance of this Annual Report on Form 10-K. There can be no assurances that GM will comply with its indemnity obligations or with its remedial obligations at the Indianapolis, Indiana facilities, or that future environmental remediation obligations will not have a material adverse effect on our results of operations. In addition, we occasionally evaluate various alternatives with respect to our facilities, including possible dispositions or closings. Investigations undertaken in connection with these activities may lead to discoveries of contamination that must be remediated, and closings of facilities may trigger remediation requirements that are not applicable to operating facilities. We may also face lawsuits brought by third parties that either allege property damage or personal injury as a result of, or seek reimbursement for costs associated with, such contamination.

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We could be materially adversely affected by any failure to maintain cost controls.

We rely on our cost structure and operating discipline to achieve strong operating margins. There are many factors that could affect our ability to realize expected cost savings or achieve future cost savings that we are not able to control, including the inability to meet demand through our low-cost country sourcing initiatives; the need for unexpected significant capital expenditures; unexpected changes in commodity or component pricing that we are unable to pass on to our suppliers or customers; our inability to maintain efficiencies gained from our workforce optimization initiatives; and our failure to achieve and maintain expected cost savings from our multi-tier wage and benefit structure. Additionally, we have substantial indebtedness of approximately $2,520.5 million as of December 31, 2014. Our inability to maintain our cost controls could adversely impact our operating margins.

Exchange rate fluctuations could adversely affect our results of operations and financial position.

As a result of the expansion of our international operations, currency exchange rate fluctuations could affect our results of operations and financial position. We expect to generate an increasing portion of our net sales and expenses in such foreign currencies as the Japanese Yen, Euro, Indian Rupee, Brazilian Real, Chinese Yuan Renminbi, Canadian Dollar, British Pound, and Hungarian Forint. Although we may enter into foreign exchange agreements with financial institutions in order to reduce our exposure to fluctuations in the value of these and other foreign currencies, these transactions, if entered into, will not eliminate that risk entirely. To the extent that we are unable to match net sales received in foreign currencies with expenses paid in the same currency, exchange rate fluctuations could have a negative impact on our results of operations and financial condition. Additionally, because our consolidated financial results are reported in U.S. Dollars, if we generate net sales or earnings in other currencies, the conversion of such amounts into U.S. Dollars can result in an increase or decrease in the amount of our net sales or earnings. Furthermore, we sell certain of our products in our non-North American markets denominated in the U.S. Dollar. To the extent that certain of the local currencies in our non-North American markets are relatively weaker than the U.S. Dollar, whether as a result of foreign governments influence or otherwise, we could become less price competitive, which could have a material adverse effect on the results of our operations.

GM s actions may materially affect our business and operating results.

Although we are an independent company as a result of the Acquisition Transaction, GM s future actions may still have a material impact on our business and results of operations. Pursuant to the Cure Agreement after GM s emergence from bankruptcy in 2009, GM has assumed certain agreements from its predecessor, including the Asset Purchase Agreement, intellectual property and software license agreements and a hybrid co-branding agreement. GM s failure to comply with any portion of these agreements for any reason, including the indemnities therein, could inhibit us from operating and expanding our business in the future.

Additionally, GM has received a non-exclusive, royalty-free, worldwide license to use the Allison Transmission name and certain related trademarks on GM s line of A1000 transmissions for use primarily in Class 2 and 3 pick-up trucks. If GM, or any of its subsidiaries or affiliated entities, or any third party uses the trade name Allison Transmission in ways that adversely affect such trade name or trademark, our reputation could suffer damage, which in turn could have a material adverse effect on our business, results of operations and financial condition.

In connection with the Acquisition Transaction, we entered into a mutual non-compete agreement with GM that restricts GM from competing with us in non-defense vehicles in North America with gross vehicle weights above 5900 kilograms (typically Class 4 and higher) with some limited exceptions for certain GM light-duty pickup truck and van platforms. It also restricts GM from competing with us in defense vehicles globally and in non-defense vehicles outside North America that exceed 4250 kilograms (generally Class 3 to Class 4 and higher) with some limited exceptions. The non-compete periods extend until August 2017 globally, except in Europe, where they expired in 2012. Similarly, we are restricted from competing with GM in weight classes below the above mentioned thresholds for similar periods of time. Upon expiration of the non-competition periods, both Allison and GM will be permitted to compete with each other but such expiration will generally not affect Allison s rights under the Patent and Technology License Agreement to use on an exclusive basis within its respective weight classes (subject to previously mentioned exceptions) the intellectual property that is licensed to Allison on an exclusive basis.

In addition, because of our current manufacturing services agreement with Opel Szentgotthard Automotive Manufacturing Ltd., a GM subsidiary, we may be materially adversely affected by the failure of GM to perform as expected. This non-performance may consist of delays or failures caused by production issues. The risk of non-performance may also result from the insolvency or bankruptcy of GM. GM s ability to provide personnel and technical resources to us is also subject to a number of risks, including destruction of our equipment or work stoppages. In addition, our failure to provide an adequate facility, or order sufficient quantities of inventory, may increase the cost of production or may lead to GM refusing to provide resources to us at all. Our efforts to protect against and to minimize these risks may not always be effective.

An impairment in the carrying value of goodwill or other indefinite-lived intangible assets could negatively affect our consolidated results of operations and net worth.

Pursuant to GAAP, we are required to assess our goodwill and indefinite-lived intangible assets to determine if they are impaired on an annual basis, or more often if events or changes in circumstances indicate that impairment may have occurred. Intangible assets with finite lives are amortized over the useful life and are reviewed for impairment on triggering events such as events or changes in circumstances indicating that an impairment may have occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill and the implied fair value of the goodwill or the carrying value of the intangible assets and the fair value of the intangible assets in the period the determination is made. Disruptions to our business, end market conditions, protracted economic weakness and unexpected significant declines in operating results may result in charges for goodwill and other asset impairments.

Our annual goodwill and trade name impairment test for the year ended December 31, 2014 resulted in no impairment. Although our analysis regarding the fair values of our goodwill and trade name indicates that they exceed their carrying values, materially different assumptions regarding the future performance of our business could result in impairment losses. See NOTE 2 and NOTE 5 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional details.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, as a result, depress the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- authorize the issuance of blank check preferred stock that our Board of Directors could issue to increase the number of outstanding shares and to discourage a takeover attempt;
- limit the ability of stockholders to remove directors only for cause ;
- prohibit our stockholders from calling a special meeting of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the Board of Directors is expressly authorized to adopt, or to alter or repeal our bylaws;
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

- establish a classified Board of Directors, with three staggered terms; and

- require the approval of holders of at least two-thirds of the outstanding shares of common stock to amend the bylaws and certain provisions of the certificate of incorporation.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors of their choosing and cause us to take corporate actions other than those they desire.

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Risks Related to Our Indebtedness

Our substantial indebtedness could adversely affect our financial health, restrict our activities and affect our ability to meet our obligations.

We have a significant amount of indebtedness. As of December 31, 2014, we had total indebtedness of $2,520.5 million and we would have been able to borrow an additional $455.1 million under the revolving portion of our credit facility, less $9.9 million of letters of credit. As of December 31, 2014, we had no outstanding borrowings against the revolving credit facility. Of our total indebtedness at December 31, 2014, $2,049.2 million consists of the term loans under ATI s credit facility, including $283.6 million of indebtedness associated with ATI s Senior Secured Credit Facility Term B-2 Loan due 2017 (Term B-2 Loan), $1,765.6 million of indebtedness associated with ATI s Senior Secured Credit Facility Term B-3 Loan due 2019 (Term B-3 Loan, and together with the Term B-2 Loan and revolving credit facility, the Senior Secured Credit Facility). We also had indebtedness of $471.3 million of ATI s 7.125% senior cash pay notes due May 2019 (7.125% Senior Notes). For a complete description of the terms of the Senior Secured Credit Facility and the 7.125% Senior Notes, please see Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments, Description of the Senior Secured Credit Facility and Description of the Senior Notes.

Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations under our indebtedness;
- require us to further dedicate a substantial portion of our cash flow from operations to payments of principal and interest on our indebtedness, thereby reducing the availability of our cash flow to fund acquisitions, working capital, capital expenditures, research and development efforts and other general corporate purposes;
- increase our vulnerability to and limit our flexibility in planning for, or reacting to, downturns or changes in our business and the industry in which we operate;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- expose us to the risk of increased interest rates as borrowings under the Senior Secured Credit Facility are subject to variable rates of interest;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

In addition, the revolving portion of our Senior Secured Credit Facility contains a maximum total senior secured leverage ratio. The Senior Secured Credit Facility and the indenture governing the 7.125% Senior Notes also contain other negative and affirmative covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with any of the covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness.

Our ability to pay regular dividends on our common stock is subject to the discretion of our Board of Directors and may be limited by our structure and statutory restrictions and restrictions imposed by the Senior Secured Credit Facility and the indenture governing the 7.125% Senior Notes as well as any future agreements.

Our Board of Directors declared a quarterly dividend of $0.06 per share of common stock beginning in the second quarter of 2012, increased the quarterly dividend to $0.12 per share of common stock beginning in the second quarter of 2013 and increased the quarterly dividend again to $0.15 per share of common stock beginning in the fourth quarter of 2014. However, the payment of future dividends will be at the discretion of our Board of Directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that our Board of Directors deems relevant. The Senior Secured Credit Facility and the indenture governing the 7.125% Senior Notes also effectively limit our ability to pay dividends. As a consequence of these limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Accordingly, you may have to sell some or all of your common stock after price appreciation in order to generate cash flow from your investment. You may not receive a gain on your investment when you sell your common stock and you may lose the entire amount of the investment. Additionally, any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our common stock.

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To service our indebtedness, we will require a significant amount of cash and our ability to generate cash depends on many factors beyond our control.

Our ability to make cash payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate significant operating cash flow in the future. This, to a significant extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot ensure that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the Senior Secured Credit Facility in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. In such circumstances, we may need to refinance all or a portion of our indebtedness on or before maturity. We cannot ensure that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances. We cannot ensure that any such actions, if necessary, could be effected on commercially reasonable terms or at all.

If we are unable to generate sufficient cash flow or are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Senior Secured Credit Facility could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to obtain waivers from the required lenders under the Senior Secured Credit Facility to avoid being in default. If we or any of our subsidiaries breach the covenants under the Senior Secured Credit Facility and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under the Senior Secured Credit Facility, the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur additional indebtedness, which could further exacerbate the risks associated with our substantial financial leverage.

We and our subsidiaries may be able to incur additional indebtedness in the future because the terms of our indebtedness do not fully prohibit us or our subsidiaries from doing so. Subject to covenant compliance and certain conditions, our indebtedness permits additional borrowing, including total borrowing up to $455.1 million under the revolving portion of the Senior Secured Credit Facility. If new debt is added to our current debt levels and our subsidiaries   current debt levels, the related risks that we and they now face could intensify.

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ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our world headquarters, which we own, is located at One Allison Way, Indianapolis, Indiana 46222. As of December 31, 2014, we have a total of 17 manufacturing and certain other facilities in seven countries. The following table sets forth certain information regarding these facilities.

Plant	Location	Approximate Size (ft^2)	Owned / Leased	Description
Plant #3	Indianapolis	927,000	Own	Engineering, Operational Support
Plant #4	Indianapolis	425,900	Own	Manufacturing
Plant #6	Indianapolis	431,500	Own	Manufacturing
Plant #16	Indianapolis	391,700	Own	Manufacturing
Plant #12	Indianapolis	534,900	Own	Manufacturing
Plant #14	Indianapolis	481,100	Own	Manufacturing
Plant #15	Indianapolis	126,400	Lease	Manufacturing
Plant #17	Indianapolis	389,000	Own	Parts Distribution Center
Plant #20 Tech. Center	Indianapolis	59,000	Own	Engineering & Testing
Plant #21 Tech. Center	Indianapolis	10,000	Own	Engineering & Testing
Szentgotthard	Hungary	149,000	Own	Manufacturing & Customization
Szentgotthard	Hungary	3,900	Own	Sales & Marketing Support
Shanghai	China	38,000	Lease	Customization & Distribution
Santo Amaro/Sorocabo	Brazil	31,400	Own	Customization & Distribution
Chennai	India	258,500	Own	Manufacturing
Dubai	United Arab Emirates	16,500	Lease	Distribution
Sliedrecht	The Netherlands	37,000	Lease	Customization & Distribution

We believe all our facilities are suitable for their intended purpose, are being efficiently utilized and provide adequate capacity to meet demand for the next several years. The table above does not include sales offices located in various countries.

ITEM 3. Legal Proceedings

We are subject to various contingencies, including routine legal proceedings and claims arising out of the normal course of business. These proceedings primarily involve commercial claims, product liability claims, personal injury claims and workers compensation claims. The outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty. Nevertheless, we believe the outcome of any of these currently existing proceedings, even if determined adversely, would not have a material adverse effect on our financial condition or results of operations.

ITEM 4. Mine Safety Disclosures

Not applicable.

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PART II.

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the NYSE under the symbol ALSN. The following table sets forth the high and low sale prices per share for our common stock on the NYSE and the dividends declared per share for each quarter for the periods indicated:

	High	Low	Dividends Declared
Year Ended December 31, 2014:			
First Quarter	**$ 31.27**	**$ 26.41**	**$ 0.12**
Second Quarter	**$ 31.42**	**$ 28.56**	**$ 0.12**
Third Quarter	**$ 32.21**	**$ 28.34**	**$ 0.12**
Fourth Quarter	**$ 34.62**	**$ 26.15**	**$ 0.15**
Year Ended December 31, 2013:			
First Quarter	$ 24.14	$ 20.13	$ 0.06
Second Quarter	$ 24.50	$ 20.67	$ 0.12
Third Quarter	$ 27.48	$ 22.08	$ 0.12
Fourth Quarter	$ 28.15	$ 23.62	$ 0.12

Holders

As of February 5, 2015, there were approximately 63,600 stockholders of record of our common stock, which includes the actual number of holders registered on the books of the Company and holders of shares in street name or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depositories.

Dividends

Our Board of Directors declared a quarterly dividend of $0.06 per share in the first quarter of 2013, increased the quarterly dividend to $0.12 per share beginning in the second quarter of 2013 and further increased the quarterly dividend to $0.15 per share beginning in the fourth quarter of 2014. We expect to continue paying cash dividends on a quarterly basis; however, future dividends are subject to approval of the Board of Directors and may be adjusted as business needs or market conditions change.

Unregistered Sales of Securities

During the period covered by this Annual Report on Form 10-K, we did not offer or sell any securities that were not registered under the Securities Act of 1933, as amended (the Securities Act).

Issuer Purchases of Equity Securities

On October 30, 2014, our Board of Directors authorized us to repurchase up to $500,000,000 of our common stock pursuant to a stock repurchase program (Repurchase Program). The terms of the Repurchase Program provide that we may repurchase shares of our common stock, from time to time depending on market conditions and corporate needs, in the open market or through privately negotiated transactions in accordance with Rule 10b-18 of the Exchange Act. Unless earlier terminated by our Board of Directors, the Repurchase Program will expire on December 31, 2016. As of December 31, 2014, $500,000,000 remained available for stock repurchases under the Repurchase Program.

Issuances Under Equity Compensation Plans

For information regarding the securities authorized for issuance under our equity compensation plans, see Part III, Item 12 of this Annual Report on Form 10-K.

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Comparative Stock Performance Graph

The information included under the heading Comparative Stock Performance Graph in this Item 5 of Part II of this Annual Report on Form 10-K shall not be deemed to be soliciting material or subject to Regulation 14A or 14C, shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act.

Set forth below is a graph comparing the total cumulative returns of ALSN, the S&P 500 Index and an index of peer companies selected by us. Our peer group includes Pall Corporation, Donaldson Company Inc., Graco Inc., Roper Industries Inc., Gentex Corporation, Rockwell Automation Inc. and Sensata Technologies Holding N.V. The graph assumes $100 was invested on March 15, 2012 in our common stock and each of the indices and that all dividends, if any, are reinvested.

	As of March 15, 2012	As of December 31, 2012	As of December 31, 2013	As of December 31, 2014
Allison Transmission Holdings, Inc.	$ 100.00	$ 88.06	$ 121.20	**$ 151.30**
S&P 500 Index	100.00	103.52	137.04	**155.80**
Peer Group	100.00	99.32	136.95	**149.34**

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ITEM 6. Selected Financial Data

The following table sets forth certain financial information for the five years ended December 31, 2014. The following table should be read in conjunction with Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

(dollars in millions, except per share data)	**Dec. 31, 2014**	**Dec. 31, 2013**	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec. 31, 2010**
Consolidated Statements of Operations:					
Net sales	**$ 2,127.4**	$ 1,926.8	$ 2,141.8	$ 2,162.8	$ 1,926.3
Gross profit	**975.9**	841.9	954.3	954.5	828.2
Operating expenses:					
Selling, general and administrative expenses	**344.6**	334.9	419.0	409.1	384.9
Engineering research and development	**103.8**	97.1	115.1	116.4	101.5
Loss associated with impairment of long-lived assets	**15.4**				
Total operating expenses	**463.8**	432.0	534.1	525.5	486.4
Operating income	**512.1**	409.9	420.2	429.0	341.8
Other income (expense), net:					
Interest income	**0.9**	0.8	0.9	0.9	3.5
Interest expense	**(139.3)**	(133.7)	(152.1)	(218.2)	(281.0)
Premiums and expenses on tender offer for long-term debt				(56.9)	
Other (expense) income, net	**(5.6)**	(10.9)	(52.8)	(4.2)	19.0
Total other expense, net	**(144.0)**	(143.8)	(204.0)	(278.4)	(258.5)
Income before income taxes	**368.1**	266.1	216.2	150.6	83.3
Income tax (expense) benefit	**(139.5)**	(100.7)	298.0	(47.6)	(53.7)
Net income	**$ 228.6**	$ 165.4	$ 514.2	$ 103.0	$ 29.6
Earnings Per Share Data:					
Basic earnings per share	**$ 1.27**	$ 0.90	$ 2.83	$ 0.57	$ 0.16
Weighted-average shares outstanding	**179.8**	184.5	182.0	181.4	181.4
Diluted earnings per share	**$ 1.25**	$ 0.88	$ 2.76	$ 0.56	$ 0.16
Diluted weighted-average shares outstanding	**182.3**	187.9	186.2	183.3	181.4
Dividends declared per common share	**$ 0.51**	$ 0.42	$ 0.18	$	$
Consolidated Balance Sheet Data:					
Cash and cash equivalents	**$ 263.0**	$ 184.7	$ 80.2	$ 314.0	$ 252.2
Total assets	**4,804.2**	4,812.6	4,866.0	5,192.6	5,310.4
Total debt	**2,520.5**	2,678.3	2,820.8	3,378.6	3,671.1
Stockholders equity	**1,397.8**	1,438.8	1,356.9	821.7	741.7

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward looking statements as a result of various factors, including, without limitation, those set forth under Part I, Item 1A, Risk Factors, and other matters included elsewhere in this Annual Report on Form 10-K. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K, as well as the information presented under Part II, Item 6 of this Annual Report on Form 10-K.

Overview

Allison Transmission Holdings, Inc. and its subsidiaries (Allison, the Company or we) design and manufacture commercial and defense fully-automatic transmissions. The business was founded in 1915 and has been headquartered in Indianapolis, Indiana since inception. Allison was an operating unit of General Motors Corporation (Old GM) from 1929 until 2007, when Allison once again became a stand-alone company. In March 2012, Allison began trading on the New York Stock Exchange under the symbol, ALSN .

We have approximately 2,700 employees and 13 different transmission product lines. Although approximately 80% percent of revenues were generated in North America in 2014, we have a global presence by serving customers in Europe, Asia, South America and Africa. We serve customers through an independent network of approximately 1,400 independent distributor and dealer locations worldwide.

Trends Impacting Our Business

Our net sales are driven by commercial vehicle production, which tends to be highly correlated to macroeconomic conditions. Our 2015 net sales guidance reflects a cautious approach given the heightened level of uncertainty and the lack of near-term visibility and confidence in the global Off-Highway end markets. Our 2015 net sales outlook also assumes a continued recovery in the North America On-Highway end market, previously considered reductions in U.S. defense spending, continued weakness in the Outside North America On-Highway end market and lower demand for North America Hybrid-Propulsion Systems for Transit Bus due to engine emissions improvements and non-hybrid alternatives.

Full Year 2014 and 2013 Net Sales by End Market (in millions)

End Market	2014 Net Sales	2013 Net Sales	% Variance
North America On-Highway	**$ 988**	$ 825	20%
North America Hybrid-Propulsion Systems for Transit Bus	**93**	105	(11%)
North America Off-Highway	**100**	39	156%
Defense	**157**	202	(22%)
Outside North America On-Highway	**264**	293	(10%)
Outside North America Off-Highway	**81**	88	(8%)
Service Parts, Support Equipment and Other	**444**	375	18%

Total Net Sales	**$ 2,127**	$ 1,927	10%

North America On-Highway end market net sales were up 20% for the year ended December 31, 2014 compared to the year ended December 31, 2013, principally driven by higher demand for Rugged Duty and Pupil Transport/Shuttle Series models.

North America Hybrid-Propulsion Systems for Transit Bus end market net sales were down 11% for the year ended December 31, 2014 compared to the year ended December 31, 2013, principally driven by lower demand due to engine emissions improvements and non-hybrid alternative technologies that generally require a fully-automatic transmission.

North America Off-Highway end market net sales were up 156% for the year ended December 31, 2014 compared to the year ended December 31, 2013, principally driven by higher demand from hydraulic fracturing applications.

Defense end market net sales were down 22% for the year ended December 31, 2014 compared to the year ended December 31, 2013, principally driven by previously considered reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts.

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Outside North America On-Highway end market net sales were down 10% for the year ended December 31, 2014 compared to the year ended December 31, 2013, reflecting weak demand in Europe and Asia.

Outside North America Off-Highway end market net sales were down 8% for the year ended December 31, 2014 compared to the year ended December 31, 2013, principally driven by weak demand in the energy sector.

Service parts, support equipment & other end market net sales were up 18% for the year ended December 31, 2014 compared to the year ended December 31, 2013, principally driven by higher demand for North America service parts and support equipment commensurate with increased transmission unit volumes.

Key Components of our Results of Operations

Net sales

We generate our net sales primarily from the sale of transmissions, transmission parts, support equipment, defense kits, engineering services, royalties 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 primary 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 year ended December 31, 2014, direct material costs were approximately 68%, overhead costs were approximately 26% 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 LTSAs. See Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk included in this Annual Report on Form 10-K.

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 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 to Engineering research and development. The DOE s matching reimbursement is recorded to Other expense, net in the Consolidated Statements of Comprehensive Income included in Part II, Item 8, of this Annual Report on Form 10-K, or in the case of capital expenditure, as a reduction in the cost basis of the capital asset.

Critical Accounting Policies and Significant Accounting Estimates

The preparation of the 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 net sales and expenses during the applicable reporting period. Differences between actual amounts and estimates are recorded in the period identified. Estimates used when evaluating revenue recognition, inventory, the impairment of goodwill and other intangibles, the impairment of long-lived assets, warranty programs, pension and post-retirement obligations, income taxes and stock-based compensation can require a significant amount of judgment, and a different set of judgments could result in changes to our reported results. A summary of our policies concerning these significant estimates is included in NOTE 2, Summary of Significant Accounting Policies in Part II, Item 8, of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

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

Recently Adopted Accounting Pronouncements

Refer to NOTE 2, Summary of Significant Accounting Policies in Part II, Item 8, of this Annual Report on Form 10-K.

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Non-GAAP Financial Measures

We use Adjusted net income to measure our overall profitability because we believe it better reflects our cash flow generation by capturing the actual cash interest paid and cash taxes paid rather than our interest expense and tax expense as calculated under 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 and other certain non-recurring items. We use Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses and Adjusted free cash flow 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 excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses and Adjusted free cash flow enhances our investors overall understanding of the financial performance and cash flow of our business.

You should not consider Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin and Adjusted EBITDA margin excluding technology-related license expenses 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, Adjusted EBITDA and Adjusted EBITDA excluding technology-related license expenses 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, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin and Adjusted EBITDA margin excluding technology-related license expenses, and a reconciliation of Net cash provided by operating activities to Adjusted free cash flow:

	For the years ended December 31,		
(unaudited, in millions)	**2014**	**2013**	**2012**
Net income	**$ 228.6**	$ 165.4	$ 514.2
plus:			
Interest expense, net	**138.4**	132.9	151.2
Cash interest expense	**(140.0)**	(159.2)	(167.3)
Income tax expense (benefit)	**139.5**	100.7	(298.0)
Cash income taxes	**(5.0)**	(3.8)	(10.7)
Amortization of intangible assets	**98.8**	105.3	150.0
Loss associated with impairment of long-lived assets (a)	**15.4**		
Technology-related investment expense (b)	**2.0**	5.0	14.4
Public offering expenses (c)	**1.4**	1.6	6.1
Fee to terminate services agreement (d)			16.0
Adjusted net income	**$ 479.1**	$ 347.9	$ 375.9
Cash interest expense	**140.0**	159.2	167.3
Cash income taxes	**5.0**	3.8	10.7
Depreciation of property, plant and equipment	**93.8**	98.7	102.5

Unrealized loss on foreign exchange (e)	**5.2**	2.3	0.1
Dual power inverter module extended coverage (f)	**1.0**	(2.4)	9.4
Unrealized (gain) loss on commodity hedge contracts (g)	**(1.0)**	1.5	(1.0)
Restructuring charge (h)	**0.7**	1.0	
Loss on repayments and repurchases of long-term debt (i)	**0.5**	0.8	22.1
Benefit plan re-measurement (j)			2.3
UAW Local 933 contract signing bonus (k)			8.8
Other (l)	**14.7**	13.8	7.0
Adjusted EBITDA	**$ 739.0**	$ 626.6	$ 705.1
Adjusted EBITDA excluding technology-related licenses expenses (m)	**$ 745.1**	$ 632.6	$ 717.1
Net sales	**$ 2,127.4**	$ 1,926.8	$ 2,141.8
Adjusted EBITDA margin	**34.7%**	32.5%	32.9%
Adjusted EBITDA margin excluding technology-related licenses expenses (m)	**35.0%**	32.8%	33.5%
Net cash provided by operating activities	**$ 556.9**	$ 453.5	$ 497.5
(Deductions) or additions to reconcile to Adjusted free cash flow:			
Additions of long-lived assets	**(64.1)**	(74.4)	(123.9)
Excess tax benefit from stock-based compensation (n)	**24.6**	13.7	5.3
Fee to terminate services agreement (d)			16.0
Technology-related license expenses (m)	**6.1**	6.0	12.0
Adjusted free cash flow	**$ 523.5**	$ 398.8	$ 406.9

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(a) Represents a charge associated with the impairment of long-lived assets related to the production of the H3000 and H4000 hybrid-propulsion systems.
(b) Represents a charge (recorded in Other expense, net) for investments in co-development agreements to expand our position in transmission technologies.
(c) Represents fees and expenses (recorded in Other expense, net) related to our secondary offerings in September 2014, June 2014, April 2014, February 2014, December 2013, November 2013 and August 2013, proposed secondary offering in April 2013 and initial public offering in March 2012.
(d) Represents a payment (recorded in Other expense, net) to terminate a services agreement with the Carlyle Group and Onex Corporation (collectively, the Sponsors).
(e) Represents losses (recorded in Other expense, net) on the mark-to-market of our foreign currency hedge contracts and on intercompany financing transactions related to investments in plant assets for our India facility.
(f) During 2014, 2013 and 2012, we conducted a review of the Dual Power Inverter Module (DPIM) extended coverage program resulting in an increase of the DPIM liability in 2014, a reduction of the DPIM liability in 2013 and an increase of the DPIM liability in 2012, partially offset by a respective increase, reduction and increase of the associated General Motors Company (GM) receivable (recorded in Selling, general and administrative expenses). The total liability and GM receivable will continue to be reviewed for any changes in estimate as additional claims data and field information become available.
(g) Represents (gains) losses (recorded in Other expense, net) on the mark-to-market of our commodity hedge contracts.
(h) Represents a charge (recorded in Selling, general and administrative, and Engineering research and development) related to employee headcount reductions in the second quarter of 2014 and second quarter of 2013.
(i) Represents losses (recorded in Other expense, net) realized on the repayments and repurchases of Allison Transmission, Inc. s (ATI), our wholly owned subsidiary, long-term debt.
(j) Represents a settlement charge (recorded in Other expense, net) related to the settlement of pension obligations for certain qualified hourly employees from our hourly defined benefit pension plan to GM s pension plan as part of the asset purchase agreement dated June 28, 2007.
(k) Represents a bonus (recorded in Cost of sales, Selling, general and administrative expenses, and Engineering research and development) to eligible employees recorded in the fourth quarter of 2012 as a result of UAW Local 933 represented employees ratifying a labor contract effective November 2012 through November 2017.
(l) Represents employee stock compensation expense (recorded in Cost of sales, Selling, general and administrative expenses, and Engineering research and development) and service fees paid to the Sponsors (recorded in Selling, general and administrative expenses).
(m) Represents payments (recorded in Engineering research and development) for licenses to expand our position in transmission technologies.
(n) Represents the amount of tax benefit (recorded in Income tax expense) related to stock-based compensation adjusted from cash flows from operating activities to cash flows from financing activities.

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Results of Operations

The following tables set forth certain financial information for the years ended December 31, 2014 and 2013 and for the years ended December 31, 2013 and 2012. The following tables and discussion should be read in conjunction with the information contained in our consolidated financial statements and the notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K.

Comparison of years ended December 31, 2014 and 2013

	Years ended December 31,			
(dollars in millions)	**2014**	**% of net sales**	**2013**	**% of net sales**
Net sales	**$ 2,127.4**		$ 1,926.8	
Gross profit	**975.9**	**46%**	841.9	44%
Operating expenses:				
Selling, general and administrative expenses	**344.6**	**16**	334.9	17
Engineering research and development	**103.8**	**5**	97.1	5
Loss associated with impairment of long-lived assets	**15.4**	**1**		
Total operating expenses	**463.8**	**22**	432.0	22
Operating income	**512.1**	**24**	409.9	22
Other expense, net:				
Interest expense, net	**(138.4)**	**(7)**	(132.9)	(7)
Other expense, net	**(5.6)**	**(0)**	(10.9)	(1)
Total other expense, net	**(144.0)**	**(7)**	(143.8)	(8)
Income before income taxes	**368.1**	**17**	266.1	14
Income tax expense	**(139.5)**	**(7)**	(100.7)	(5)
Net income	**$ 228.6**	**10%**	$ 165.4	9%

Net sales

Net sales for the year ended December 31, 2014 were $2,127.4 million compared to $1,926.8 million for the year ended December 31, 2013, an increase of 10%. The increase was principally driven by a $163.0 million, or 20%, increase in net sales of North American on-highway products principally driven by higher demand from Rugged Duty Series and Pupil Transport/Shuttle Series models, a $69.0 million, or 18%, increase in net sales of parts and other products principally driven by higher demand for North American service parts and support equipment commensurate with increased transmission unit volumes, and a $61.0 million, or 156%, increase in net sales of North American off-highway products principally driven by higher demand from hydraulic fracturing applications, partially offset by a $45.0 million, or 22%, decrease in net sales of defense products due to lower U.S. defense spending, a $29.0 million, or 10%, decrease in net sales of Outside North America on-highway products principally driven by weakness in Europe and Asia, a $12.0 million, or 11%, decrease in net sales of North America hybrid-propulsion systems for transit buses principally driven by lower demand due to engine emissions improvements and non-hybrid alternatives (e.g. xNG), and a $7.0 million, or 8%, decrease in net sales of Outside North America off-highway products principally driven by lower demand from the energy sector. See Trends Impacting Our Business above for additional information on net sales by end markets.

Gross profit

Gross profit for the year ended December 31, 2014 was $975.9 million compared to $841.9 million for the year ended December 31, 2013, an increase of 16%. The increase was principally driven by $122.0 million related to increased net sales, $20.0 million of price increases on certain products and $3.0 million of favorable foreign exchange, partially offset by $5.8 million of higher incentive compensation expense and $5.2 million of higher manufacturing expense commensurate with increased net sales.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2014 were $344.6 million compared to $334.9 million for the year ended December 31, 2013, an increase of 3%. The increase was principally driven by $7.1 million of higher incentive compensation expense, increased global commercial spending activities, a $2.4 million favorable adjustment in 2013 related to the DPIM extended coverage program and a $1.0 million unfavorable adjustment in 2014 related to the DPIM extended coverage program, partially offset by $6.5 million of lower intangible asset amortization.

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Engineering research and development

Engineering expenses for the year ended December 31, 2014 were $103.8 million compared to $97.1 million for the year ended December 31, 2013, an increase of 7%. The increase was principally driven by increased spending on product initiatives and $2.7 million of higher incentive compensation expense.

Loss associated with impairment of long-lived assets

During 2014, we reviewed certain of our long-lived assets related to the production of the H3000 and H4000 hybrid-propulsion systems, resulting in a $15.4 million loss recorded for the year ended December 31, 2014. The loss included approximately $1.7 million of accrued expenses related to the impairment of the long-lived assets.

Interest expense, net

Interest expense, net for the year ended December 31, 2014 was $138.4 million compared to $132.9 million for the year ended December 31, 2013, an increase of 4%. The increase was principally driven by $30.8 million of less favorable mark-to-market adjustments for interest rate derivatives, partially offset by $12.3 million of lower interest expense as a result of the maturity of $950.0 million of interest rate derivatives, $5.2 million of lower interest expense as a result of debt repayments, $4.7 million of lower interest expense related to lower interest rates and $2.8 million of lower amortization of deferred financing fees.

Other expense, net

Other expense, net for the year ended December 31, 2014 was $5.6 million compared to $10.9 million for the year ended December 31, 2013, a decrease of 49%. The decrease in expense was principally driven by $4.5 million of lower expenses related to unrealized and realized losses on derivative contracts, $3.0 million of lower technology-related investment impairment expense, a $2.0 million gain related to the negotiation of a commercial agreement, $1.4 million of lower expenses related to foreign exchange losses, $0.3 million of lower expenses related to debt repayments, and $0.2 million of lower public offering fees and expenses, partially offset by $3.1 million of increased foreign exchange losses on intercompany financing, $2.6 million of lower Grant Program income and $0.4 million of lower miscellaneous income.

Income tax expense

Income tax expense for the year ended December 31, 2014 was $139.5 million compared to $100.7 million for the year ended December 31, 2013, resulting in an effective tax rate of 38% for each of the years ended December 31, 2014 and December 31, 2013.

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Comparison of years ended December 31, 2013 and 2012

	Years ended December 31,			
(dollars in millions)	2013	% of net sales	2012	% of net sales
Net sales	$ 1,926.8		$ 2,141.8	
Gross profit	841.9	44%	954.3	45%
Operating expenses:				
Selling, general and administrative expenses	334.9	17	419.0	20
Engineering research and development	97.1	5	115.1	5
Total operating expenses	432.0	22	534.1	25
Operating income	409.9	22	420.2	20
Other expense, net:				
Interest expense, net	(132.9)	(7)	(151.2)	(7)
Other expense, net	(10.9)	(1)	(52.8)	(2)
Total other expense, net	(143.8)	(8)	(204.0)	(9)
Income before income taxes	266.1	14	216.2	11
Income tax (expense) benefit	(100.7)	(5)	298.0	14
Net income	$ 165.4	9%	$ 514.2	25%

Net sales

Net sales for the year ended December 31, 2013 were $1,926.8 million compared to $2,141.8 million for the year ended December 31, 2012, a decrease of 10%. The decrease was principally driven by a $144.0 million, or 53%, decrease in net sales of global off-highway products principally driven by lower demand from North America natural gas fracturing applications and lower global demand in the mining sector, a $103.0 million, or 34%, decrease in net sales of defense products due to lower U.S. defense spending and a $10.0 million, or 9%, decrease in net sales of North America hybrid-propulsion systems for transit buses principally driven by lower demand due to engine emissions improvements and non-hybrid alternatives (e.g. xNG), partially offset by a $27.0 million, or 8%, increase in net sales of parts and other products, and a $15.0 million, or 1%, increase in net sales of global on-highway products. See Trends Impacting Our Business above for additional information on net sales by end markets.

Gross profit

Gross profit for the year ended December 31, 2013 was $841.9 million compared to $954.3 million for the year ended December 31, 2012, a decrease of 12%. The decrease was principally driven by $132.0 million related to decreased sales, partially offset by $7.7 million related to the fourth quarter 2012 UAW Local 933 contract signing bonus, $6.0 million of favorable foreign exchange and $4.0 million of favorable manufacturing performance.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2013 were $334.9 million compared to $419.0 million for the year ended December 31, 2012, a decrease of 20%. The decrease was principally driven by $44.7 million of lower intangible asset amortization, a $9.4 million charge in 2012 related to the DPIM extended coverage program, $8.0 million of unfavorable product warranty adjustments in 2012 from prior period estimates, a $2.4 million favorable adjustment in 2013 related to the DPIM extended coverage program, $1.0 million related to the fourth quarter 2012 UAW Local 933 contract signing bonus and reduced global commercial spending activities, partially offset by $6.0 million of higher stock compensation expense.

Engineering - research and development

Engineering expenses for the year ended December 31, 2013 were $97.1 million compared to $115.1 million for the year ended December 31, 2012, a decrease of 16%. The decrease was principally driven by $12.0 million of technology-related license expenses in 2012 to expand our position in transmission technologies, $0.1 million related to the fourth quarter 2012 UAW Local 933 contract signing bonus, lower product initiative spending and reduced global spending activities, partially offset by $6.0 million of technology-related license expenses in 2013 to further expand our position in transmission technologies.

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Interest expense, net

Interest expense, net for the year ended December 31, 2013 was $132.9 million compared to $151.2 million for the year ended December 31, 2012, a decrease of 12%. The decrease was principally driven by $14.4 million of lower interest expense as a result of debt repayments and purchases, an $8.8 million decrease in mark-to-market expense for our interest rate derivatives, $3.8 million of lower interest expense as a result of a decrease in effective interest rate swaps and $3.4 million of lower amortization of deferred financing fees, partially offset by $9.0 million of higher interest expense as a result of higher interest rates on the Senior Secured Credit Facility, $3.0 million of higher interest expense related to higher interest rates on our effective interest rate swaps and $0.1 million of lower interest income.

Other expense, net

Other expense, net for the year ended December 31, 2013 was $10.9 million compared to $52.8 million for the year ended December 31, 2012, a decrease of 79%. The decrease in expense was principally driven by $21.3 million of lower premiums and expenses related to payments on and redemptions of long-term debt, a $16.0 million payment in 2012 to terminate the services agreement with the Sponsors, $9.4 million of lower technology-related investment impairment expense, $4.5 million of lower public offering expenses, $2.3 million related to the hourly pension plan settlement in 2012 and $0.7 million of reduced miscellaneous expenses, partially offset by $3.9 million of higher expenses related to unrealized and realized losses on derivative contracts, $2.1 million of higher unfavorable foreign exchange and $6.3 million of lower Grant Program income.

Income tax (expense) benefit

Income tax expense for the year ended December 31, 2013 was ($100.7) million compared to an income tax benefit of $298.0 million for the year ended December 31, 2012, resulting in an effective tax rate of (38%) for the year ended December 31, 2013 versus an effective tax rate of 138% for the year ended December 31, 2012. The change in effective tax rate was principally driven by the release of the domestic valuation allowance on our deferred tax assets in the second quarter of 2012.

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Liquidity and Capital Resources

We generate cash primarily from our operating activities to fund our operating, investing and financing activities. Our principal uses of cash are operating expenses, capital expenditures, debt service, stock repurchases, dividends on common stock and working capital needs. We had total available cash and cash equivalents of $263.0 million and $184.7 million as of December 31, 2014 and 2013, respectively. Of the available cash and cash equivalents, approximately $208.0 million and $179.7 million were deposited in operating accounts while approximately $55.0 million and $5.0 million were invested in U.S. government backed securities as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, the total of cash and cash equivalents held by foreign subsidiaries was $35.3 million, the majority of which was located in Europe, Hungary and China. The geographic location of our cash aligns with our business growth strategy. We manage our worldwide cash requirements considering available funds among the subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our targeted expectations or operating needs with local resources.

If we distribute our foreign cash balance to the U.S. or to other foreign subsidiaries, we could be required to accrue and pay U.S. taxes. For example, we would be required to accrue and pay additional U.S. taxes if we repatriate cash from certain foreign subsidiaries whose earnings we have asserted are permanently reinvested outside of the U.S. Foreign earnings for which we assert permanent reinvestment outside the U.S. consists primarily of earnings of our Europe and China subsidiaries. We currently do not foresee a need to repatriate any earnings from these subsidiaries for which we have asserted permanent reinvestment.

Our liquidity requirements are significant, primarily due to our debt service requirements. As of December 31, 2014, the Company had $283.6 million of indebtedness associated with ATI s Senior Secured Credit Facility Term B-2 Loan due 2017 (Term B-2 Loan) and $1,765.6 million of indebtedness associated with ATI s Senior Secured Credit Facility Term B-3 Loan due 2019 (Term B-3 Loan, and together with the Term B-2 Loan and revolving credit facility, 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).

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. We made principal payments of $157.6 million, $142.4 million and $245.4 million on the Senior Secured Credit Facility for the years ended December 31, 2014, 2013 and 2012, respectively.

The Senior Secured Credit Facility also provides for $465.0 million in revolving credit borrowings, net of an allowance for up to $75.0 million in outstanding letters of credit commitments. During 2014, the maximum amount outstanding at any time on the revolving credit facility was $40.0 million, and all balances were repaid within the quarter they were borrowed. As of December 31, 2014, we had no outstanding borrowings on our revolving credit facility. Additionally within the terms of the Senior Secured Credit Facility, a senior secured leverage ratio at or below 3.50x results in the elimination of excess cash flow payments on the Senior Secured Credit Facility for the applicable year. The Senior Secured Credit Facility provides certain financial incentives based on our total leverage ratio. A total leverage ratio at or below 4.00x results in a 25 basis point reduction to the applicable margin on our revolving credit facility, and a total leverage ratio at or below 3.50x results in a 12.5 basis point reduction to the revolving credit facility commitment fee and an additional 25 basis point reduction to the applicable margin on our revolving credit facility. A total leverage ratio at or below 3.25x results in a 25 basis point reduction to the applicable margin on our

Term B-3 Loan. These reductions would remain in effect as long as we achieve a total leverage ratio at or below the related threshold. As of December 31, 2014, the total leverage ratio was 3.05x.

In addition to the maximum total senior secured leverage ratio for the revolving portion of the Senior Secured Credit Facility, the Senior Secured Credit Facility and the indenture 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, declare or pay certain dividends, or repurchase shares of our common stock. As of December 31, 2014, we are in compliance with all covenants under the Senior Secured Credit Facility.

Prior to May 15, 2015, we may redeem some or all of our 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 as follows:

Year	**Percentage**
2015	103.563%
2016	101.781%
2017 and thereafter	100.000%

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Our credit ratings are reviewed regularly by major debt ratings agencies such as Standard and Poor s, Moody s Investors Service and Fitch Ratings. In January 2015, Standard and Poor s raised the issue ratings and revised recovery ratings. The rating of the Senior Secured Credit Facility was raised to BB+ from BB, and the rating of the 7.125% Senior Notes was raised to B+ from B.

In connection with secondary public offerings of our common stock held by investment funds affiliated with the Sponsors, we repurchased from the underwriters 5,000,000 shares of common stock in June 2014 and 3,428,179 shares in February 2014 at the prices paid by the underwriters for a total cost of $249.8 million and subsequently retired those shares.

On October 30, 2014, our Board of Directors authorized us to purchase up to $500.0 million of our common stock under a stock repurchase program. We anticipate that future repurchases under this program will be an ongoing use of cash.

The following table shows our sources and uses of funds for the years ended December 31, 2014, 2013 and 2012 (in millions):

	Years ended December 31,		
Statement of Cash Flows Data	**2014**	**2013**	**2012**
Cash flows from operating activities	**$ 556.9**	$ 453.5	$ 497.5
Cash flows used for investing activities	**(67.9)**	(81.5)	(138.7)
Cash flows used for financing activities	**(424.1)**	(277.5)	(593.5)

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 year ended December 31, 2014 generated $556.9 million of cash compared to $453.5 million for the year ended December 31, 2013. The increase was principally driven by increased net sales, lower inventories, lower cash interest expense and higher other liabilities, net, partially offset by higher accounts receivable commensurate with increased net sales and increased excess tax benefit from stock-based compensation.

Operating activities for the year ended December 31, 2013 generated $453.5 million of cash compared to $497.5 million for the year ended December 31, 2012. The decrease was principally driven by decreased net sales, higher accounts receivable principally driven by lower accounts receivable at the end of 2012 as a result of earlier than expected receipts, lower other liabilities, net, and increased excess tax benefit from stock-based compensation, partially offset by higher accounts payable principally driven by lower accounts payable at the end of 2012 as a result of labor negotiations planning, decreased spending commensurate with reduced global commercial and product initiatives spending, lower cash interest expense and lower cash income taxes.

Cash used for investing activities

Investing activities for the year ended December 31, 2014 used $67.9 million of cash compared to $81.5 million for the year ended December 31, 2013. The decrease was principally driven by a decrease of $10.3 million in capital expenditures and a decrease of $3.0 million in investments in technology-related initiatives. The decrease in capital expenditures was principally driven by lower product initiatives spending, partially offset by increased investments in productivity and replacement programs.

Investing activities for the year ended December 31, 2013 used $81.5 million of cash compared to $138.7 million for the year ended December 31, 2012. The decrease was principally driven by a decrease of $49.5 million in capital expenditures and a decrease of $5.6 million in investments in technology-related initiatives. The decrease in capital expenditures was principally driven by the 2012 expansion of our India facility and lower product initiatives spending.

Cash used for financing activities

Financing activities for the year ended December 31, 2014 used $424.1 million of cash compared to $277.5 million for the year ended December 31, 2013. The increase was principally driven by $150.3 million related to increased repurchases of our common stock in connection with the June 2014 and February 2014 secondary offerings by investment funds affiliated with the Sponsors, $15.2 million of increased payments on the Senior Secured Credit Facility, $14.5 million of increased dividend payments and $4.8 million of higher taxes paid related to net share settlement of equity awards, partially offset by $14.0 million of decreased debt financing fees, $13.3 million of increased proceeds from the exercise of stock options and $10.9 million of increased excess tax benefit from stock based compensation.

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Financing activities for the year ended December 31, 2013 used $277.5 million of cash compared to $593.5 million for the year ended December 31, 2012. The decrease was principally driven by 2012 redemptions of $326.9 million of ATI s 11.0% senior cash pay notes due November 2015, $103.0 million of decreased principal payments on the Senior Secured Credit Facility, $17.3 million of increased proceeds from the exercise of stock options, $8.4 million of increased tax benefits from stock based compensation and $5.3 million of decreased debt financing fees, partially offset by $99.5 million related to the repurchase of our common stock in connection with the August 2013 secondary offering by the Sponsors and $44.3 million of increased dividend payments.

Contractual Obligations, Contingent Liabilities and Commitments

The following table summarizes our contractual obligations as of December 31, 2014 (dollars in millions):

		Payments due by period			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
7.125% Senior Notes(1)	$ 622.3	$ 33.5	$ 67.2	$ 521.6	$
Senior Secured Credit Facility(2)	2,393.4	92.1	462.1	1,839.2	
Operating leases	12.5	4.6	4.5	1.4	2.0
Pension & OPEB liabilities(3)	21.1	4.8	10.7	5.6	see (3) below
Total(4)	$ 3,049.3	$ 135.0	$ 544.5	$ 2,367.8	$ 2.0

(1) 7.125% Senior Notes include principal and interest payments based on a fixed interest rate of 7.125%.

(2) Senior Secured Credit Facility includes principal payments and estimated interest payments excluding the effects of our interest rate swaps. A portion of the interest is at a variable rate and for the purposes of this table has been calculated using LIBOR as of December 31, 2014, plus the applicable margin of each loan, resulting in an applied rate of 2.92% for Term B-2 Loan and 3.75% for Term B-3 Loan. Actual payments will vary.

(3) Estimated pension funding and post-retirement benefit payments are based on an increasing discount rate and effective interest rate for funding purposes between 4.5% - 5.5%. Pension funding and post-retirement benefit payments are excluded from the table beyond year 5, though we expect funding and payments to continue beyond year 5. See NOTE 13 of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for the funding status of our pension plans and other post-retirement plan as of December 31, 2014.

(4) Estimated warranty obligations, sales allowance programs and defense price reduction reserves, which total $83.6 million, $25.5 million and $63.1 million, respectively, as of December 31, 2014 have been excluded from this table as timing of any payments are uncertain.

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ITEM 7A. 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 our Senior Secured Credit Facility. Our Senior Secured Credit Facility provides for variable rate borrowings of up to $2,504.3 million including $455.1 million under our revolving credit facility, net of $9.9 million of letters of credit. A one-eighth percent change in assumed interest rates for the Senior Secured Credit Facility, if fully drawn, as of December 31, 2014 would have an impact of approximately $1.0 million on interest expense assuming the 1.00% LIBOR floor is in effect for our Term B-3 Loan. Should LIBOR exceed 1.00%, a one-eighth percent change in assumed interest rates for the Senior Secured Credit Facility, if fully drawn, as of December 31, 2014 would have an impact of approximately $3.0 million on interest expense. As of December 31, 2014, we had no outstanding borrowings against the revolving credit facility.

From time to time, we enter into interest rate swap agreements to hedge our variable interest rate debt. Below is a list of our interest rate swaps as of December 31, 2014:

	Counterparty	Effective Date	Notional Amount (in millions)	LIBOR Fixed Rate
Interest Rate Swap L	Barclays	Aug 2016-Aug 2019	$ 75.0	3.44%*
Interest Rate Swap M	JP Morgan	Aug 2016-Aug 2019	$ 100.0	3.43%*
Interest Rate Swap N	Bank of America	Aug 2016-Aug 2019	$ 75.0	3.37%*
Interest Rate Swap O	Deutsche Bank	Aug 2016-Aug 2019	$ 75.0	3.19%*
Interest Rate Swap P	Barclays	Aug 2016-Aug 2019	$ 75.0	3.08%*
Interest Rate Swap Q	Barclays	Aug 2016-Aug 2019	$ 50.0	2.99%*
Interest Rate Swap R	Deutsche Bank	Aug 2016-Aug 2019	$ 50.0	2.98%*
Interest Rate Swap S	Deutsche Bank	Aug 2016-Aug 2019	$ 50.0	2.73%*
Interest Rate Swap T	Bank of America	Aug 2016-Aug 2019	$ 75.0	2.74%*
Interest Rate Swap U	Fifth Third Bank	Aug 2016-Aug 2019	$ 50.0	2.66%*
Interest Rate Swap V	Fifth Third Bank	Aug 2016-Aug 2019	$ 50.0	2.60%*
Interest Rate Swap W	Fifth Third Bank	Aug 2016-Aug 2019	$ 25.0	2.40%*

* includes LIBOR floor of 1.00%

We are exposed to increased interest expense if a counterparty defaults. Refer to NOTE 7 and NOTE 8 of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K.

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, Indian Rupee, Brazilian Real, Chinese Yuan Renminbi, Canadian Dollar and Hungarian Forint. 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 December 31, 2014, we hold hedging contracts in the Japanese Yen, which are intended to hedge either known or forecasted cash flow payments denominated in the currency. We do not hold financial instruments for trading or speculative purposes.

Assuming current levels of foreign currency transactions, a 10% aggregate increase or decrease in the Japanese Yen, Euro, Indian Rupee, Chinese Yuan Renminbi and Canadian Dollar 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.

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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 changes in commodity prices to certain of our customers according to our LTSAs. We historically have not entered into long-term purchase contracts related to the purchase of aluminum and steel. We currently hold financial forward contracts that are intended to hedge forecasted aluminum purchases. Based on our forecasted demand for 2015 and 2016, as of December 31, 2014, the hedge contracts cover approximately 30% and 16% of our aluminum requirements, respectively. We do not hold financial instruments for trading or speculative purposes.

Assuming current levels of commodity purchases, a 10% increase or decrease in the price of aluminum and steel would correspondingly change our earnings by approximately $1 million and $4 million per year, respectively. This includes the partial offset of our hedging contracts described above.

Many of our LTSAs have incorporated a cost-sharing arrangement related to potential 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.

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ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Allison Transmission Holdings, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of stockholders equity and of cash flows present fairly, in all material respects, the financial position of Allison Transmission Holdings, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our audits (which were integrated audits in 2013 and 2014). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Indianapolis, Indiana

February 20, 2015

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Allison Transmission Holdings, Inc.

Consolidated Balance Sheets

(dollars in millions, except share data)

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 263.0**	$ 184.7
Accounts receivable net of allowance for doubtful accounts of $0.3 and $0.4, respectively	**207.4**	175.1
Inventories	**143.5**	160.4
Deferred income taxes, net	**119.7**	58.1
Other current assets	**24.4**	28.6
Total Current Assets	**758.0**	606.9
Property, plant and equipment, net	**514.6**	563.4
Intangible assets, net	**1,512.0**	1,610.8
Goodwill	**1,941.0**	1,941.0
Deferred income taxes, net	**1.3**	1.1
Other non-current assets	**77.3**	89.4
TOTAL ASSETS	**$ 4,804.2**	$ 4,812.6
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 151.7**	$ 150.4
Product warranty liability	**24.0**	37.4
Current portion of long-term debt	**17.9**	17.9
Deferred revenue	**20.6**	29.2
Other current liabilities	**131.7**	152.3
Total Current Liabilities	**345.9**	387.2
Product warranty liability	**59.6**	53.1
Deferred revenue	**48.7**	43.2
Long-term debt	**2,502.6**	2,660.4
Deferred income taxes	**238.2**	76.2
Other non-current liabilities	**211.4**	153.7
TOTAL LIABILITIES	**3,406.4**	3,373.8
Commitments and contingencies (see NOTE 17)		

STOCKHOLDERS EQUITY

Common stock, $0.01 par value, 1,880,000,000 shares authorized, 179,488,247 shares issued and outstanding and 183,375,436 shares issued and outstanding, respectively		**1.8**		1.8
Non-voting common stock, $0.01 par value, 20,000,000 shares authorized, none issued and outstanding and 1,185 issued and outstanding, respectively				0.0
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding				
Paid in capital		**1,651.0**		1,631.8
Accumulated deficit		**(215.5)**		(173.8)
Accumulated other comprehensive loss, net of tax		**(39.5)**		(21.0)
TOTAL STOCKHOLDERS EQUITY		**1,397.8**		1,438.8
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	**$**	**4,804.2**	$	4,812.6

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

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Allison Transmission Holdings, Inc.

Consolidated Statements of Comprehensive Income

(dollars in millions, except per share data)

	Years ended December 31,		
	2014	**2013**	**2012**
Net sales	**$ 2,127.4**	$ 1,926.8	$ 2,141.8
Cost of sales	**1,151.5**	1,084.9	1,187.5
Gross profit	**975.9**	841.9	954.3
Selling, general and administrative expenses	**344.6**	334.9	419.0
Engineering research and development	**103.8**	97.1	115.1
Loss associated with impairment of long-lived assets	**15.4**		
Operating income	**512.1**	409.9	420.2
Interest income	**0.9**	0.8	0.9
Interest expense	**(139.3)**	(133.7)	(152.1)
Other expense, net	**(5.6)**	(10.9)	(52.8)
Income before income taxes	**368.1**	266.1	216.2
Income tax (expense) benefit	**(139.5)**	(100.7)	298.0
Net income	**$ 228.6**	$ 165.4	$ 514.2
Basic earnings per share attributable to common stockholders	**$ 1.27**	$ 0.90	$ 2.83
Diluted earnings per share attributable to common stockholders	**$ 1.25**	$ 0.88	$ 2.76
Dividends declared per common share	**$ 0.51**	$ 0.42	$ 0.18
Other comprehensive (loss) income, net of tax:			
Foreign currency translation	**(7.4)**	(5.0)	(0.7)
Pension and OPEB liability adjustment	**(9.1)**	29.0	15.1
Available-for-sale securities	**(2.0)**	(1.1)	(1.3)
Total other comprehensive (loss) income, net of tax	**(18.5)**	22.9	13.1
Comprehensive income	**$ 210.1**	$ 188.3	$ 527.3

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

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Allison Transmission Holdings, Inc.

Consolidated Statements of Cash Flows

(dollars in millions)

	Years ended December 31,		
	2014	**2013**	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 228.6**	$ 165.4	$ 514.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	**98.8**	105.3	150.0
Depreciation of property, plant and equipment	**93.8**	98.7	102.5
Deferred income taxes	**131.8**	98.0	(303.8)
Excess tax benefit from stock-based compensation	**(24.6)**	(13.7)	(5.3)
Loss associated with impairment of long-lived assets	**15.4**		
Stock-based compensation	**14.7**	13.7	6.4
Amortization of deferred financing costs	**8.1**	10.9	14.5
Unrealized gain on derivatives	**(4.7)**	(32.8)	(26.2)
Impairment loss on investments in technology-related initiatives	**2.0**	5.0	14.4
Loss on repayments and repurchases of long-term debt	**0.5**	0.8	22.1
Other	**5.2**	2.1	2.1
Changes in assets and liabilities:			
Accounts receivable	**(35.8)**	(9.9)	29.9
Inventories	**12.7**	(4.4)	(1.8)
Accounts payable	**2.1**	17.6	(29.4)
Other assets and liabilities	**8.3**	(3.2)	7.9
Net cash provided by operating activities	**556.9**	453.5	497.5
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions of long-lived assets	**(64.1)**	(74.4)	(123.9)
Investments in technology-related initiatives	**(5.8)**	(8.8)	(14.4)
Collateral for interest rate derivatives	**1.7**	1.2	(1.0)
Proceeds from disposal of assets	**0.3**	0.5	0.6
Net cash used for investing activities	**(67.9)**	(81.5)	(138.7)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of common stock	**(249.8)**	(99.5)	
Payments on long-term debt	**(157.6)**	(142.4)	(245.4)
Dividend payments	**(91.6)**	(77.1)	(32.8)
Proceeds from exercise of stock options	**59.6**	46.3	29.0
Excess tax benefit from stock-based compensation	**24.6**	13.7	5.3