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

FORM 8-K

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

Date of Report (Date of earliest event reported) February 3, 2017

ALLISON TRANSMISSION HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-35456
(Commission
File Number)

26-0414014
(IRS Employer
Identification No.)

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

46222
(Zip Code)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

On February 3, 2017, Allison Transmission Holdings, Inc. (the “Company”), entered into a stock repurchase agreement (the “Stock Repurchase Agreement”) with ValueAct Capital Master Fund, L.P. (“ValueAct”), pursuant to which the Company agreed to repurchase from ValueAct 10,525,204 shares of the Company’s common stock for aggregate consideration of \$363.1 million, representing a purchase price of \$34.50 per share.

The transaction is expected to close on or about February 8, 2017, subject to customary closing conditions. Following the closing of the transaction, ValueAct will not own any shares of common stock of the Company.

A copy of the Stock Repurchase Agreement has been attached as Exhibit 10.1 to this Current Report on Form 8-K and is incorporated by reference herein. The foregoing description of the Stock Repurchase Agreement does not purport to be complete and is qualified in its entirety by reference to such Exhibit.

On February 6, 2017, the Company issued a press release announcing the execution of the Stock Repurchase Agreement. A copy of the press release is attached as Exhibit 99.4 hereto.

Item 2.02 Results of Operations and Financial Condition.

On February 6, 2017, the Company published an earnings release reporting its financial results for the three months and year ended December 31, 2016. A copy of the earnings release is attached as Exhibit 99.1 hereto. Following the publication of the earnings release, the Company will host an earnings call on February 7, 2017 at 8:00 a.m. ET on which its financial results for the three months and year ended December 31, 2016 will be discussed. The investor presentation materials that will be used for the call are attached as Exhibit 99.2 hereto.

On February 6, 2017, the Company posted the materials attached as Exhibits 99.1 and 99.2 on its web site (www.allisontransmission.com).

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

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

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On February 3, 2017, Gregory P. Spivy notified the Board of Directors (“Board”) of the Company that he would not stand for re-election at the Company’s 2017 annual meeting of stockholders (the “2017 Annual Meeting”). Mr. Spivy’s decision to not stand for re-election was not as a result of any disagreement with the Company.

Item 8.01 Other Events.

On February 3, 2017, the Company entered into a Cooperation Agreement (the “Agreement”) with Ashe Capital Management, LP, certain of its affiliated entities and William R. Harker (collectively, the “Ashe Group”). The Ashe Group represented in the Agreement that they collectively owned 10,031,115 shares (approximately 6.07% of the outstanding common stock of the Company).

Pursuant to the Agreement and subject to the conditions set forth therein, the Company has agreed to promptly appoint Mr. Harker as a member of the Board if either (1) a person affiliated with ValueAct or its affiliates (currently Gregory P. Spivy) or (2) a person affiliated with Longview Asset Management, LLC or its affiliates (“Longview”) (currently James A. Star), ceases to serve as a member of the Board. Further pursuant to the Agreement and subject to the conditions set forth therein, the Company has agreed to nominate Mr. Harker for election as a director at the Company’s 2017 and 2018 annual meetings of stockholders if (i) the Board fails to nominate as directors both a person affiliated with ValueAct and a person affiliated with Longview for election to the Board at the Company’s 2017 or 2018 annual meeting of stockholders; or (ii) either ValueAct or Longview ceases to beneficially own at least 5% of the outstanding common stock of the Company.

As previously disclosed, on February 3, 2017, the Company entered into the Stock Repurchase Agreement with ValueAct and Mr. Spivy notified the Board that he will not stand for re-election at the Company’s 2017 Annual Meeting. Following the closing of the transaction with ValueAct, ValueAct will not own any shares of common stock of the Company, triggering the obligation of the Company to nominate Mr. Harker for election to the Board at the Company’s 2017 Annual Meeting.

The Company’s obligation to appoint Mr. Harker pursuant to the Agreement will cease if the Àshe Group no longer holds at least 5% of the Company’s common stock or any member of the Àshe Group breaches the Agreement. The Company has also agreed that the Àshe Group may receive certain information about the Company in accordance with a confidentiality agreement entered into by the parties.

The Àshe Group has agreed during the term of the Agreement, and for so long as Mr. Harker or another Àshe designee serves as a member of the Board, to vote for the Board’s slate of nominees for director at the Company’s annual meeting of stockholders and in accordance with the Board’s recommendations for any other proposals, other than with respect to any extraordinary transaction, stock issuances or implementation of takeover defenses. In addition, during the term of the Agreement, and for so long as Mr. Harker or another Àshe designee serves as a member of the Board, the Àshe Group agrees, subject to certain exceptions, that it shall not:

- make, participate in or encourage any solicitation of proxies or consents;
- deposit any securities of the Company in any voting trust or similar arrangement;
- acquire shares that would lead to the ownership in excess of 7.5% of the Company’s stock;
- sell or transfer shares of the Company’s stock to any third party such that the third party would own more than 4.9% of the Company’s stock after such a sell or transfer;
- effect, propose, participate in or facilitate any tender or exchange offer, merger, consolidation, acquisition, scheme, arrangement, business combination, recapitalization, reorganization, sale or acquisition of material assets, liquidation, dissolution or other extraordinary transaction involving the Company or any of its subsidiaries;
- engage in any “short selling” of the Company’s stock;
- call or seek to call any meeting of stockholders;
- seek representation on the Board, except as set forth in the Agreement;
- seek the removal of any member of the Board;
- make a request for any stockholder list or other Company books and records;
- take any action in support of or make any proposal or request that constitutes:
- advising, controlling, changing or influencing the Board or management of the Company, including any plans or proposals to change the number or term of directors or to fill any vacancies on the Board;
- any material change in the capitalization, stock repurchase programs and practices or dividend policy of the Company;
- any other material change in the Company’s management, business or corporate structure;
- seeking to have the Company waive or make amendments or modifications to its Certificate of Incorporation or Bylaws, or other actions that may impede or facilitate the acquisition of control of the Company by any person;
- disparage the Company, its affiliates or any of its current or former officers or directors; or
- encourage a third party to do any of the foregoing.

The Agreement terminates on the date that is the earliest of: (i) the Company's failure to appoint Mr. Harker to the Board pursuant to the terms of the Agreement, (ii) the day which is 30 days prior to the last day on which a shareholder must give notice to the Company of such shareholder's intention to nominate a person for election as a director or to present a proposal at the Company's 2019 annual meeting of stockholders.

The foregoing description of the Agreement is qualified in its entirety by reference to the full text of the Agreement, which is attached hereto as Exhibit 99.3 and incorporated herein by reference.

On February 6, 2017, the Company issued a press release announcing its entry into the Agreement. A copy of the press release is attached as Exhibit 99.4 hereto.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
10.1	Stock Repurchase Agreement, dated February 3, 2017, between Allison Transmission Holdings, Inc. and ValueAct Capital Master Fund, L.P.
99.1	Earnings release dated February 6, 2017.
99.2	Investor presentation materials dated February 6, 2017.
99.3	Cooperation Agreement between the Company and the Ashe Group, dated February 3, 2017.
99.4	Press release dated February 6, 2017.

SIGNATURES

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

Allison Transmission Holdings, Inc.

Date: February 6, 2017

By: /s/ Eric C. Scroggins

Name: Eric C. Scroggins

Title: Vice President, General Counsel and Secretary

EXHIBIT INDEX

**Exhibit
Number**

Description

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99.4	Press release dated February 6, 2017.

STOCK REPURCHASE AGREEMENT

This Stock Repurchase Agreement (this "**Agreement**") is made and entered into as of February 3, 2017, by and between Allison Transmission Holdings, Inc., a Delaware corporation (the "**Company**"), and ValueAct Capital Master Fund, L.P. (the "**Seller**").

RECITALS

A. The Company previously entered into a Cooperation Agreement, dated December 12, 2014 (the "**Cooperation Agreement**") with the Seller, VA Partners I, LLC, ValueAct Capital Management, L.P., ValueAct Capital Management, LLC, ValueAct Holdings, L.P., ValueAct Holdings GP, LLC and Gregory P. Spivy (collectively, the "**ValueAct Group**"), whereby the Company agreed, at the ValueAct Group's election, to appoint Mr. Spivy to the Company's Board of Directors.

B. Mr. Spivy has served as member of the Company's Board of Directors since his appointment as a director on May 14, 2015.

C. The Company desires to repurchase from the Seller, and the Seller desires to sell to the Company, a total of 10,525,204 shares of common stock of the Company (the "**Shares**") on the terms and conditions set forth in this Agreement.

D. The Company is permitted, pursuant to Sections 154, 160 and 244 of the General Corporation Law of the State of Delaware ("**DGCL**"), its Second Amended and Restated Certificate of Incorporation, as amended, and its Fifth Amended and Restated Bylaws, to repurchase the Shares on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows.

1. Purchase and Sale of Shares. Subject to the terms and conditions of this Agreement, the Company hereby agrees to purchase, and the Seller hereby agrees to sell to the Company, the Shares for a purchase price of \$34.50 per share for an aggregate purchase price of \$ 363,119,538 (the "**Purchase Price**"), as provided herein.

2. Closing. The closing of the purchase and sale of the Shares (the "**Closing**") shall occur on February 8, 2017, or such other date thereafter, as is mutually agreed in writing by the Company and the Seller (the "**Closing Date**"). At the Closing, the following deliveries will be made:

(a) **By the Company.** The Company will deliver to the Seller full payment of the Purchase Price, by wire transfer to the bank account designated by the Seller in writing at least one business day prior to the Closing; and

(b) **By the Seller.** The Seller will deliver to the Company, in form reasonably acceptable to the Company, such documents as may be reasonably required in order to effect a transfer of the Shares on the books of American Stock Transfer & Trust Company LLC from the Seller to the Company.

3. Representations and Warranties of the Company. The Company hereby represents and warrants to the Seller as follows:

(a) The Company is a corporation validly existing under the laws of Delaware and has full legal right and corporate power and authority to enter into this Agreement and to consummate the transactions provided for herein.

(b) The execution, delivery and performance by the Company of this Agreement has been duly authorized by all requisite corporate action of the Company, and this Agreement, when executed and delivered by both parties, will be a valid and binding agreement of the Company enforceable against the Company in accordance with its terms.

4. Representations, Warranties and Covenants of the Seller. The Seller hereby represents, warrants and agrees with the Company as follows:

(a) The Seller has full legal authority and capacity to enter into this Agreement, and to consummate the transactions provided for herein. This Agreement, when executed and delivered by both parties, will be a valid and binding agreement of the Seller, enforceable against the Seller in accordance with its terms.

(b) The Seller acknowledges that its designee, Mr. Spivy, is a director of the Company, and that the Seller has extensive and substantial knowledge regarding the Company, its financial condition and results of operations, including, without limitation, material, non-public and confidential information about the Company's financial results for the quarter and year ended December 31, 2016, scheduled for public release on or about February 6, 2017 (the "**Upcoming Earnings Release**"). The Seller acknowledges that the Upcoming Earnings Release could cause the market price of the Company's common stock to increase or decrease and that the Seller has decided to enter into this repurchase transaction on the date hereof without knowing the effect, if any, of the Upcoming Earnings Release on the market price of the Company's common stock. The Seller has asked questions of the Company and has made a full evaluation of the risks and merits of this repurchase transaction. The Seller hereby waives any right to additional consideration with respect to the Shares.

(c) The Seller is and at the Closing will be the sole legal owner of and, will hold valid marketable title to, the Shares, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable or legal interest (collectively, a "**Lien**"), and the Seller has not granted any rights to or interest in the Shares to any other person or entity. The Seller further agrees not to sell, transfer, pledge or encumber the Shares or suffer any lien, security interest, claim or equitable or legal interest to attach to the Shares other than pursuant to this Agreement.

(d) All consents, approvals, authorizations and orders required for the execution and delivery of this Agreement and the transfer of the Shares under this Agreement by the Seller have been obtained and are in full force and effect. The Seller has full legal right, power and authority to enter into and perform its obligations under this Agreement and to transfer the Shares under this Agreement. The execution and delivery of this Agreement by the Seller and the transfer of the Shares under this Agreement by the Seller do not require (except for filings pursuant to Section 16 or Regulation 13D under the Securities Exchange Act of 1934) any filings with, any governmental authority or court, or body or arbitrator having jurisdiction over the Seller.

(e) The Seller (a) is a sophisticated person familiar with transactions similar to those contemplated by this Agreement, (b) has adequate information concerning the business and financial condition of the Company to make an informed decision regarding the transfer of the Shares, (c) has independently and without reliance upon the Company, and based on such information and the advice of such advisors as the Seller has deemed appropriate, made its own analysis and decision to enter into this Agreement. The Seller acknowledges that none of the Company or its affiliates (other than Mr. Spivy) or agents is acting as a fiduciary or financial or investment adviser to the Seller, and has not given the Seller any investment advice, opinion or other information on whether the transfer of the Shares is prudent. The Seller understands and acknowledges that the Company is not making, and has not made, any statement, representation or warranty to the Seller concerning: (i) the fairness or adequacy of the Purchase Price; (ii) the current or likely future value of the Shares; (iii) the markets, business, products, management, technical or marketing capabilities, financial affairs or prospects of the Company; or (iv) any other matter that has been relied upon by the Seller or the Seller's legal counsel or advisors in assessing the value of the Shares or determining whether to enter into this Agreement upon the terms and conditions set forth herein.

(f) The Seller acknowledges that (i) the Company or its affiliates or agents currently may have, and later may come into possession of, information with respect to the Company that is not known to the Seller and that may be material to a decision to transfer the Shares ("**Seller Excluded Information**"), (ii) the Seller has determined to transfer the Shares notwithstanding its lack of knowledge of the Seller Excluded Information and (iii) none of the Company or its affiliates or agents shall have any liability to the Seller, and the Seller waives and releases any claims that it might have against the Company or its affiliates or agents whether under applicable securities laws or otherwise, with respect to the nondisclosure of the Seller Excluded Information in connection with the transfer of the Shares and the transactions contemplated by this Agreement. The Seller understands that the Company and its affiliates and agents will rely on the accuracy and truth of the foregoing representations, and the Seller hereby consents to such reliance.

(g) The Seller has reviewed with its own tax advisors the federal, state, local and foreign tax consequences of this sale of the Shares and the transactions contemplated by this Agreement. The Seller is relying solely on such advisors and not on any statements or representations of the Company, the Company's counsel, auditor, or any of the Company's agents. The Seller understands that it (and not the Company) shall be solely responsible for its own tax liability that may arise as a result of this sale of the Shares or the transactions contemplated by this Agreement.

(h) The execution and delivery of, and performance by the Seller of the Seller's obligations under, this Agreement do not and will not (i) violate or conflict with in any respect, (A) any provision of law, rule or regulation, (B) any order, judgment or decree of any court or other agency or government applicable to the Seller, (C) any provision of the Seller's organizational documents, or (D) any note, bond, mortgage, deed, indenture, lien, instrument, contract, agreement, lease or license, whether written or oral, express or implied, to which the Seller is a party or by which it is bound, or (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time, or both) a default under, or result in the creation or imposition of any Lien upon any of the property or assets of the Seller pursuant to any note, bond, mortgage, deed, indenture, lien, instrument, contract, agreement, lease or license, whether written or oral, express or implied, to which the Seller is a party or by which it is bound.

(i) There is no action, suit, proceeding or investigation pending or, to the Seller's knowledge, currently threatened that questions the validity of this Agreement, or the right of the Seller to enter into this Agreement or to consummate the transactions contemplated by this Agreement. There are presently no outstanding judgments, decrees or orders of any court or any governmental or administrative agency against the Seller, which questions the validity of this Agreement or the right of the Seller to consummate the transactions contemplated by this Agreement.

(j) To the knowledge of Seller, no event has occurred that would have a material and adverse effect on the assets, business, prospects, financial condition, or results of operations of the Company.

5. Conditions of the Seller's Obligations at Closing. The obligation of the Seller to sell the Shares is subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

(a) The representations and warranties contained in Section 3 shall be true and correct in all respects as of the Closing.

(b) The Company shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by the Company on or before the Closing.

(c) No government, court, tribunal, arbitrator, administrative agency, commission or other governmental official, authority or instrumentality shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction, order or other legal restraint (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the sale of the Shares by the Seller illegal or otherwise prohibiting or preventing consummation of the sale of the Shares by the Seller.

6. Conditions of the Company's Obligations at Closing. The obligation of the Company to purchase the Shares is subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

(a) The representations and warranties contained in Section 4 shall be true and correct in all respects as of the Closing.

(b) The Seller shall have performed and complied with all covenants, agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by the Seller on or before the Closing.

(c) No government, court, tribunal, arbitrator, administrative agency, commission or other governmental official, authority or instrumentality shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction, order or other legal restraint (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the purchase of the Shares by the Company illegal or otherwise prohibiting or preventing consummation of the purchase of the Shares by the Company.

7. Termination. This Agreement shall terminate and the term and conditions set forth herein shall be of no further force or effect (i) upon mutual agreement in writing by the Company and the Seller or (ii) February 15, 2017, provided the Closing has not occurred by such date.

8. Covenant Against Transfer. Seller covenants that, upon signing this Agreement, it will not take any action to transfer the Shares to a third party or otherwise take any action to subject the Shares to any Lien.

9. Further Assurances. Subject to the terms and conditions of this Agreement, each party will use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under applicable laws and regulations to consummate the transactions contemplated by this Agreement.

10. Legal and Equitable Remedies. The Company has the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief without prejudice to any other rights or remedies the Company may have at law or in equity for breach of this Agreement.

11. Attorneys' Fees. Each party will pay its own legal and other fees in connection with the negotiation and preparation of this Agreement; *provided that* if any action is brought to enforce the terms of this Agreement, the prevailing party will be entitled to recover its reasonable attorneys' fees, costs and expenses from the other party, in addition to any other relief to which the prevailing party may be entitled.

12. Entire Agreement. This Agreement constitutes the entire agreement between the Company and the Seller with respect to the subject matter hereof and supersedes all prior negotiations and agreements, whether written or oral, relating to such subject matter. The Seller acknowledges that neither the Company nor its agents or attorneys have made any promise, representation or warranty whatsoever, either express or implied, written or oral, which is not contained in this Agreement for the purpose of inducing the Seller to execute this Agreement, and the Seller acknowledges that it has executed this Agreement in reliance only upon such promises as are contained herein.

13. Modification. It is expressly agreed that this Agreement may not be altered, amended, modified or otherwise changed in any respect except by another written agreement that specifically refers to this Agreement, executed by each of the parties to this Agreement.

14. Severability. If any provision of this Agreement, or any part of any such provision, is held under any circumstances to be invalid or unenforceable in any jurisdiction, then (a) such provision or part thereof shall, with respect to such circumstances and in such jurisdiction, be deemed amended to conform to applicable laws so as to be valid and enforceable to the fullest possible extent, (b) the invalidity or unenforceability of such provision or part thereof under such circumstances and in such jurisdiction shall not affect the validity or enforceability of such provision or part thereof under any other circumstances or in any other jurisdiction, and (c) such invalidity or unenforceability of such provision or part thereof shall not affect the validity or enforceability of the remainder of such provision or the validity or enforceability of any other provision of this Agreement and is separable from every other part of such provision.

15. Governing Law. This Agreement will be governed by the laws of the State of New York without regard to conflicts of laws principles.

16. Counterparts. This Agreement may be executed in any number of counterparts, each of which will be an original, but all of which together will constitute one instrument.

17. Headings. The headings contained in this Agreement are included for purposes of convenience only, and do not affect the meaning or interpretation of this Agreement.

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IN WITNESS WHEREOF, the parties have executed this Stock Repurchase Agreement as of the date first written above.

COMPANY:

ALLISON TRANSMISSION HOLDINGS, INC.

By: /s/ Eric C. Scroggins
Name: Eric C. Scroggins
Title: Vice President, General Counsel & Secretary

SELLER:

VALUEACT CAPITAL MASTER FUND L.P.

by VA Partners I, LLC, its General Partner

By: /s/ Bradley E. Singer
Name: Bradley E. Singer
Title: Chief Operating Officer



Allison Transmission Announces Fourth Quarter and Full Year 2016 Results

Fourth Quarter 2016:

- Net Sales \$469 million, Net Income \$61 million, Adjusted EBITDA \$158 million, Net Cash Provided by Operating Activities \$175 million, Adjusted Free Cash Flow \$146 million

Full Year 2016:

- Net Sales \$1,840 million, Net Income \$215 million, Adjusted EBITDA \$644 million, Net Cash Provided by Operating Activities \$591 million, Adjusted Free Cash Flow \$530 million

INDIANAPOLIS, February 6, 2017 – Allison Transmission Holdings Inc. (NYSE: ALSN), the largest global provider of commercial duty fully-automatic transmissions, today reported net sales for the fourth quarter of \$469 million, a 2 percent decrease from the same period in 2015. The decrease in net sales was principally driven by lower demand in the North America On-Highway and Global Off-Highway end markets partially offset by higher demand in the Outside North America On-Highway, Defense and Service Parts, Support Equipment & Other end markets.

Net Income for the quarter was \$61 million compared to \$13 million for the same period in 2015. Adjusted EBITDA, a non-GAAP financial measure, for the quarter was \$158 million, or 33.8 percent of net sales, compared to \$170 million, or 35.6 percent of net sales, for the same period in 2015. Net Cash Provided by Operating Activities for the quarter was \$175 million compared to \$175 million for the same period in 2015. Adjusted Free Cash Flow, a non-GAAP financial measure, for the quarter was \$146 million compared to \$147 million for the same period in 2015.

Lawrence E. Dewey, Chairman and Chief Executive Officer of Allison Transmission commented, “Allison’s fourth quarter 2016 results exceeded the full year guidance ranges we provided to the market on October 24 principally due to stronger than anticipated demand conditions in North America Off-Highway service parts and Global On-Highway products. Allison demonstrated solid operating margins and free cash flow while executing its well-defined approach to capital structure and allocation. During the fourth quarter, we settled \$87 million of share repurchases and paid a dividend of \$0.15 per share.”

Fourth Quarter Net Sales by End Market

End Market	Q4 2016 Net Sales (\$M)	Q4 2015 Net Sales (\$M)	% Variance
North America On-Highway	217	252	(14%)
North America Hybrid-Propulsion Systems for Transit Bus	20	23	(13%)
North America Off-Highway	0	11	(100%)
Defense	37	25	48%
Outside North America On-Highway	83	65	28%
Outside North America Off-Highway	4	7	(43%)
Service Parts, Support Equipment & Other	108	95	14%
Total Net Sales	469	478	(2%)

Fourth Quarter Highlights

North America On-Highway end market net sales were down 14 percent from the same period in 2015 principally driven by lower demand for Rugged Duty Series and Highway Series models and down 3 percent on a sequential basis principally driven by lower demand for Transit/Other Bus and Pupil Transport/Shuttle Series models partially offset by higher demand for Rugged Duty Series models.

North America Hybrid-Propulsion Systems for Transit Bus end market net sales were down 13 percent from the same period in 2015 principally driven by lower demand due to engine emissions improvements and other alternative technologies and up 150 percent sequentially principally driven by intra-year movement in the timing of orders.

North America Off-Highway end market net sales were down \$11 million from the same period in 2015 and down \$1 million on a sequential basis principally driven by the previously contemplated impact of low energy prices.

Defense end market net sales were up 48 percent from the same period in 2015 and up 48 percent sequentially principally driven by intra-year movement in the timing of orders.

Outside North America On-Highway end market net sales were up 28 percent from the same period in 2015 principally driven by higher demand in Europe, Japan and China and up 6 percent on a sequential basis principally driven by higher demand in China and Europe partially offset by lower demand in South America.

Outside North America Off-Highway end market net sales were down 43 percent from the same period in 2015 principally driven by lower demand in the mining sector and up 100 percent sequentially principally driven by higher demand in the energy and mining sectors.

Service Parts, Support Equipment & Other end market net sales were up 14 percent from the same period in 2015 principally driven by higher demand for North America Off-Highway service parts and up 13 percent on a sequential basis principally driven by higher demand for North America Off-Highway and global On-Highway service parts.

Gross profit for the quarter was \$218 million, a decrease of 2 percent from \$222 million for the same period in 2015. Gross margin for the quarter was 46.4 percent, a decrease of 10 basis points from a gross margin of 46.5 percent for the same period in 2015. The decrease in gross profit from the same period in 2015 was principally driven by decreased net sales and higher incentive compensation expense partially offset by lower manufacturing expense commensurate with decreased net sales.

Selling, general and administrative expenses for the quarter were \$84 million, an increase of \$2 million from \$82 million for the same period in 2015. The increase was principally driven by higher incentive compensation expense partially offset by favorable product warranty adjustments.

Engineering – research and development expenses for the quarter were \$25 million, an increase of \$1 million from \$24 million for the same period in 2015. The increase was principally driven by higher incentive compensation expense partially offset by the cadence of certain product development initiatives.

Net income for the quarter was \$61 million compared to \$13 million for the same period in 2015. The increase was principally driven by a 2015 Trade Name Impairment charge, favorable mark-to-market adjustments for our interest rate derivatives and favorable product warranty adjustments partially offset by decreased net sales and higher incentive compensation expense.

Fourth Quarter Non-GAAP Financial Measures

Adjusted EBITDA for the quarter was \$158 million, or 33.8 percent of net sales, compared to \$170 million, or 35.6 percent of net sales, for the same period in 2015. The decrease was principally driven by higher incentive compensation expense and decreased net sales partially offset by favorable product warranty adjustments.

Adjusted Free Cash Flow for the quarter was \$146 million compared to \$147 million for the same period in 2015, a decrease of \$1 million. The decrease was principally driven by higher incentive compensation expense, decreased net sales and increased capital expenditures partially offset by favorable product warranty adjustments and increased incentive compensation accruals.

2017 Guidance

Allison expects 2017 net sales to be in the range of up 1.5 to 4.5 percent compared to 2016, an Adjusted EBITDA margin in the range of 33.5 to 35.5 percent and an Adjusted Free Cash Flow in the range of \$345 to \$385 million. Capital expenditures are expected to be in the range of \$70 to \$80 million, which includes maintenance spending of approximately \$65 million. Cash income taxes are expected to be in the range of \$55 to \$65 million.

Our 2017 net sales guidance reflects a modest increase in the North American On-Highway end market. Allison's 2017 net sales outlook also assumes price increases on certain products and a continued recovery in the Service Parts, Support Equipment & Other end market principally driven by increased demand for North America Off-Highway service parts partially offset by lower demand in the Defense end market.

Although we are not providing specific first quarter 2017 guidance, Allison does expect first quarter net sales to be approximately flat compared to the same period in 2016 principally driven by increased demand expected in the Service Parts, Support Equipment & Other end market offset by decreased demand expected in the North America On-Highway and North America Off-Highway end markets

Conference Call and Webcast

The company will host a conference call at 8:00 a.m. ET on Tuesday, February 7 to discuss its fourth quarter 2016 results. Dial-in number is 1-201-689-8470 and the U.S. toll-free dial-in number is 1-877-407-9039. A live webcast of the conference call will also be available online at <http://ir.allisontransmission.com>.

For those unable to participate in the conference call, a replay will be available from 11:00 a.m. ET on February 7 until 11:59 p.m. ET on February 14. The replay dial-in number is 1-844-512-2921 and the international replay dial-in number is 1-412-317-6671. The replay passcode is 13653304.

About Allison Transmission

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

Forward-Looking Statements

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

Use of Non-GAAP Financial Measures

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

This press release also contains forward-looking estimates of non-GAAP Adjusted EBITDA Margin and Adjusted Free Cash Flow for fiscal year 2017. We are unable to provide a reconciliation of our forward-looking estimate of non-GAAP Adjusted EBITDA Margin to a forward-looking estimate of GAAP Net Income because certain information needed to make a reasonable forward-looking estimate of GAAP Net Income is difficult to predict and estimate and is often dependent on future events which may be uncertain or outside of our control. These may include unanticipated charges related to asset impairments (fixed assets, investments, intangibles or goodwill) and unanticipated non-recurring items not reflective of ongoing operations. We are unable to provide a reconciliation of our forward-looking estimate of non-GAAP Adjusted Free Cash Flow to a forward-looking estimate of GAAP Net Cash Provided by Operating Activities because certain information needed to make a reasonable forward-looking estimate of GAAP Net Cash Provided by Operating Activities is difficult to predict and estimate and is often dependent on future events which may be uncertain or outside of our control. These may include the level of excess income tax benefit from share-based compensation and unanticipated non-recurring items.

Attachment

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

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

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net sales	\$ 468.9	\$ 478.2	\$ 1,840.2	\$ 1,985.8
Cost of sales	251.2	256.0	976.0	1,052.0
Gross profit	217.7	222.2	864.2	933.8
Selling, general and administrative	83.5	81.5	323.9	317.1
Engineering - research and development	24.5	23.5	88.8	92.5
Trade name impairment	—	80.0	—	80.0
Environmental remediation	—	—	—	14.0
Loss associated with impairment of long-lived assets	—	—	—	1.3
Operating income	109.7	37.2	451.5	428.9
Interest expense, net	(16.8)	(20.8)	(100.9)	(114.5)
Expenses related to long-term debt refinancing	(0.1)	—	(11.7)	(25.3)
Other income (expense), net	1.9	3.3	2.4	(0.3)
Income before income taxes	94.7	19.7	341.3	288.8
Income tax expense	(33.5)	(6.7)	(126.4)	(106.5)
Net income	<u>\$ 61.2</u>	<u>\$ 13.0</u>	<u>\$ 214.9</u>	<u>\$ 182.3</u>
Basic earnings per share attributable to common stockholders	<u>\$ 0.37</u>	<u>\$ 0.08</u>	<u>\$ 1.28</u>	<u>\$ 1.03</u>
Diluted earnings per share attributable to common stockholders	<u>\$ 0.36</u>	<u>\$ 0.08</u>	<u>\$ 1.27</u>	<u>\$ 1.03</u>

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

	December 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 204.7	\$ 251.6
Accounts receivable - net of allowance for doubtful accounts of \$0.4 and \$0.4, respectively	196.9	195.0
Inventories	125.6	141.4
Other current assets	20.4	28.8
Total Current Assets	547.6	616.8
Property, plant and equipment, net	464.1	479.7
Intangible assets, net	3,183.4	3,275.8
Other non-current assets	23.5	36.1
TOTAL ASSETS	\$ 4,218.6	\$ 4,408.4
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 127.9	\$ 126.2
Current portion of long-term debt	11.9	24.5
Other current liabilities	202.4	153.9
Total Current Liabilities	342.2	304.6
Long-term debt	2,146.8	2,352.7
Other non-current liabilities	649.3	562.5
TOTAL LIABILITIES	3,138.3	3,219.8
TOTAL STOCKHOLDERS' EQUITY	1,080.3	1,188.6
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 4,218.6	\$ 4,408.4

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

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net cash provided by operating activities	\$ 175.2	\$ 174.8	\$ 590.8	\$ 579.9
Net cash used for investing activities (a)	(33.9)	(27.9)	(71.4)	(59.7)
Net cash used for financing activities	(98.9)	(43.5)	(564.7)	(528.7)
Effect of exchange rate changes in cash	(2.4)	(0.2)	(1.6)	(2.9)
Net increase (decrease) in cash and cash equivalents	40.0	103.2	(46.9)	(11.4)
Cash and cash equivalents at beginning of period	164.7	148.4	251.6	263.0
Cash and cash equivalents at end of period	<u>\$ 204.7</u>	<u>\$ 251.6</u>	<u>\$ 204.7</u>	<u>\$ 251.6</u>
Supplemental disclosures:				
Interest paid	\$ 14.7	\$ 21.7	\$ 78.3	\$ 97.1
Income taxes paid	\$ 2.9	\$ 0.2	\$ 12.8	\$ 5.2
(a) Additions of long-lived assets	\$ (33.9)	\$ (28.0)	\$ (70.6)	\$ (58.1)

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

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Net income (GAAP) plus:	\$ 61.2	\$ 13.0	\$ 214.9	\$ 182.3
Interest expense, net	16.8	20.8	100.9	114.5
Income tax expense	33.5	6.7	126.4	106.5
Amortization of intangible assets	23.0	24.2	92.4	97.1
Depreciation of property, plant and equipment	20.7	22.5	83.5	88.3
Expenses related to long-term debt refinancing (a)	0.1	—	11.7	25.3
Stock-based compensation expense (b)	3.0	2.6	9.4	9.8
Stockholder activism expenses (c)	0.2	—	3.9	—
Unrealized loss (gain) on commodity hedge contracts (d)	—	0.4	(1.7)	1.1
Dual power inverter module extended coverage (e)	—	—	1.3	(2.1)
Technology-related investment expense (f)	—	—	1.0	—
Unrealized (gain) loss on foreign exchange (g)	(0.1)	(0.2)	0.6	1.4
Trade name impairment (h)	—	80.0	—	80.0
Environmental remediation (i)	—	—	—	14.0
Loss associated with impairment of long-lived assets (j)	—	—	—	1.3
Loss on repayments of long-term debt (k)	—	0.1	—	0.3
Adjusted EBITDA (Non-GAAP)	<u>\$158.4</u>	<u>\$170.1</u>	<u>\$ 644.3</u>	<u>\$ 719.8</u>
Net sales (GAAP)	\$468.9	\$478.2	\$1,840.2	\$1,985.8
Adjusted EBITDA margin (Non-GAAP)	33.8%	35.6%	35.0%	36.2%
Net Cash Provided by Operating Activities (GAAP)	\$175.2	\$174.8	\$ 590.8	\$ 579.9
(Deductions) or Additions to Reconcile to Adjusted Free Cash Flow:				
Additions of long-lived assets	(33.9)	(28.0)	(70.6)	(58.1)
Excess tax benefit from stock-based compensation (l)	4.3	0.2	6.4	8.4
Stockholder activism expenses (c)	—	—	3.7	—
Technology-related license expenses (m)	—	—	—	0.2
Adjusted Free Cash Flow (Non-GAAP)	<u>\$145.6</u>	<u>\$147.0</u>	<u>\$ 530.3</u>	<u>\$ 530.4</u>

- (a) Represents expenses related to the refinancing of Allison Transmission, Inc.'s ("ATI"), our wholly owned subsidiary, Senior Secured Credit Facility in the third quarter of 2016 and ATI's tender offer and redemption of its 7.125% Senior Notes in the second quarter of 2015.
- (b) Represents stock-based compensation expense (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development).
- (c) Represents expenses (recorded in Selling, general and administrative) and payments (recorded in Net Cash Provided by Operating Activities) directly associated with stockholder activism activity including the notice, and subsequent withdrawal, of director nomination and governance proposals by Ashe Capital Management, LP.
- (d) Represents unrealized losses (gains) (recorded in Other income (expense), net) on the mark-to-market of our commodity hedge contracts.
- (e) Represents adjustments (recorded in Selling, general and administrative) associated with the Dual Power Inverter Module ("DPIM") extended coverage program liability. The DPIM liability will continue to be reviewed for any changes in estimates as additional claims data and field information become available.
- (f) Represents a charge (recorded in Other income (expense), net) for investments in co-development agreements to expand our position in transmission technologies.
- (g) Represents (gains) losses (recorded in Other income (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.
- (h) Represents a charge associated with the impairment of our trade name as a result of lower forecasted net sales for certain of our end markets.
- (i) Represents environmental remediation expenses for ongoing operating, monitoring and maintenance activities at our Indianapolis, Indiana manufacturing facilities as a result of the U.S. Environmental Protection Agency determining that we are responsible for future operating, monitoring and maintenance activities and that General Motors' environmental remediation activities, pursuant to the asset purchase agreement, were completed in the third quarter of 2015.
- (j) Represents a charge associated with the impairment of long-lived assets related to the production of the H3000 and H4000 hybrid-propulsion systems.
- (k) Represents losses (recorded in Other income (expense), net) realized on the repayments of ATI's long-term debt.
- (l) 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.
- (m) Represents payments for licenses to expand our position in transmission technologies.

Q4 2016 Earnings Release

Published February 6, 2017 (Earnings Conference Call February 7, 2017)

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



Safe Harbor Statement

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

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

Allison Transmission's business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission's Annual Report on Form 10-K for the year ended December 31, 2015.

Non-GAAP Financial Information

We use Adjusted EBITDA and Adjusted EBITDA margin to measure our operating profitability. We believe that Adjusted EBITDA and Adjusted EBITDA margin provide management, investors and creditors with useful measures of the operational results of our business and increase the period-to-period comparability of our operating profitability and comparability with other companies. Adjusted EBITDA margin is also used in the calculation of management's incentive compensation program. The most directly comparable U.S. generally accepted accounting principles ("GAAP") measure to Adjusted EBITDA is Net income. Adjusted EBITDA is calculated as the earnings before interest expense, income tax expense, amortization of intangible assets, depreciation of property, plant and equipment and other adjustments as defined by our debt agreement. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales.

We use Adjusted free cash flow to evaluate the amount of cash generated by our business that, after the capital investment needed to maintain and grow our business and certain mandatory debt service requirements, can be used for repayment of debt, stockholder distributions and strategic opportunities, including investing in our business and strengthening our balance sheet. We believe that Adjusted free cash flow enhances the understanding of the cash flows of our business for management, investors and creditors. Adjusted free cash flow is also used in the calculation of management's incentive compensation program. The most directly comparable GAAP measure to Adjusted free cash flow is Net cash provided by operating activities.

Call Agenda

- **Q4 2016 Performance**
- **2017 Guidance**

Q4 2016 Performance Summary

(\$ in millions)	Q4 2016	Q4 2015	% Variance
Net Sales	\$469	\$478	(1.9%)
Gross Margin %	46.4%	46.5%	(10 bps)
Net Income	\$61	\$13	370.8%
Adjusted EBITDA ⁽¹⁾	\$158	\$170	(6.9%)
Adjusted Free Cash Flow ⁽¹⁾	\$146	\$147	(1.0%)

Commentary

Net Sales: decrease was principally driven by lower demand in the North America On-Highway and Global Off-Highway end markets partially offset by higher demand in the Outside North America On-Highway, Defense and Service Parts, Support Equipment & Other end markets.

Gross Margin: decrease was principally driven by decreased net sales and higher incentive compensation expense partially offset by lower manufacturing expense commensurate with decreased net sales.

Net Income: increase was principally driven by a 2015 Trade Name Impairment charge, favorable mark-to-market adjustments for our interest rate derivatives and favorable product warranty adjustments partially offset by decreased net sales and higher incentive compensation expense.

Adjusted EBITDA: decrease was principally driven by higher incentive compensation expense and decreased net sales partially offset by favorable product warranty adjustments.

Adjusted Free Cash Flow: decrease was principally driven by higher incentive compensation expense, decreased net sales and increased capital expenditures partially offset by favorable product warranty adjustments and increased incentive compensation accruals.

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

Q4 2016 Sales Performance

(\$ in millions)

End Markets	Q4 2016	Q4 2015	% Variance	Commentary
North America On-Hwy	\$217	\$252	(14%)	Principally driven by lower demand for Rugged Duty Series and Highway Series models
North America Hybrid-Propulsion Systems for Transit Bus	\$20	\$23	(13%)	Principally driven by lower demand due to engine emissions improvements and other alternative technologies
North America Off-Hwy	\$0	\$11	(100%)	Principally driven by the previously contemplated impact of low energy prices
Defense	\$37	\$25	48%	Principally driven by intra-year movement in the timing of orders
Outside North America On-Hwy	\$83	\$65	28%	Principally driven by higher demand in Europe, Japan and China
Outside North America Off-Hwy	\$4	\$7	(43%)	Principally driven by lower demand in the mining sector
Service Parts, Support Equipment & Other	\$108	\$95	14%	Principally driven by higher demand for North America Off-Highway service parts
Total	\$469	\$478	(2%)	

Q4 2016 Financial Performance

(\$ in millions, except per share data)	Q4 2016	Q4 2015	\$ Var	% Var	Commentary
Net Sales	\$468.9	\$478.2	(\$9.3)	(1.9%)	Decrease was principally driven by lower demand in the North America On-Highway and Global Off-Highway end markets partially offset by higher demand in the Outside North America On-Highway, Defense and Service Parts, Support Equipment & Other end markets
Cost of Sales	\$251.2	\$256.0	\$4.8	1.9%	
Gross Profit	\$217.7	\$222.2	(\$4.5)	(2.0%)	Decrease was principally driven by decreased net sales and higher incentive compensation expense partially offset by lower manufacturing expense commensurate with decreased net sales
Operating Expenses					
Selling, General and Administrative	\$83.5	\$81.5	(\$2.0)	(2.5%)	Increase was principally driven by higher incentive compensation expense partially offset by favorable product warranty adjustments
Engineering – Research and Development	\$24.5	\$23.5	(\$1.0)	(4.3%)	Increase was principally driven by higher incentive compensation expense partially offset by the cadence of certain product development initiatives
Impairment Loss	\$0.0	\$80.0	\$80.0	100.0%	Trade name impairment charge of \$80 million in 2015 as a result of lower forecasted net sales for certain of our end markets
Total Operating Expenses	\$108.0	\$185.0	\$77.0	41.6%	
Operating Income	\$109.7	\$37.2	\$72.5	194.9%	
Interest Expense, net	(\$16.8)	(\$20.8)	\$4.0	19.2%	Decrease principally driven by favorable mark-to-market adjustments for our interest rate derivatives partially offset by interest expense for our interest rate derivatives that became effective in August 2016
Expenses Related to Long-Term Debt Refinancing	(\$0.1)	\$0.0	(\$0.1)	N/A	
Other Income, net	\$1.9	\$3.3	(\$1.4)	42.4%	
Income Before Income Taxes	\$94.7	\$19.7	\$75.0	380.7%	
Income Tax Expense	(\$33.5)	(\$6.7)	(\$26.8)	(400.0%)	Increase in effective tax rate principally driven by an increase in estimated taxable income of certain foreign entities
Net Income	\$61.2	\$13.0	\$48.2	370.8%	
Diluted Earnings Per Share	\$0.36	\$0.08	\$0.28	350.0%	Q4 2016: 165.9M shares; Q4 2015: 171.9M shares
Adjusted EBITDA ⁽¹⁾	\$158.4	\$170.1	(\$11.7)	(6.9%)	
Adjusted EBITDA Margin ⁽¹⁾	33.8%	35.6%	-	(1.8%)	

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

Q4 2016 Cash Flow Performance

(\$ in millions)	Q4 2016	Q4 2015	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$175	\$175	\$0	0.2%	Principally driven by higher incentive compensation expense, decreased net sales, increased operating working capital ⁽²⁾ and excess tax benefit from stock-based compensation offset by favorable product warranty adjustments, increased incentive compensation accruals and decreased other assets, net
CapEx	\$34	\$28	\$6	21.1%	Principally driven by timing of productivity and replacement program spending
Adjusted Free Cash Flow ⁽¹⁾	\$146	\$147	(\$1)	(0.9%)	Principally driven by increased capital expenditures partially offset by increased excess tax benefit from stock-based compensation

(\$ in millions)	Q4 2016	Q4 2015	\$ Variance	% Variance	Commentary
Operating Working Capital ⁽²⁾ Percentage of LTM Sales	10.6%	10.6%	N/A	0 bps	In line with prior period
Cash Paid for Interest	\$11	\$22	(\$11)	(51.2%)	Principally driven by timing of payments associated with the Q3 2016 refinancing of long term debt
Cash Paid for Income Taxes	\$3	\$0	\$3	N/A	Principally driven by higher taxable income and intra-year payment timing

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

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

2017 Guidance – End Markets Net Sales Commentary

(\$ in millions)

End Market	2016 Net Sales	2017 Midpoint	Commentary
North America On-Hwy	\$962	3%	Principally driven by higher Class 6/7 and Class 8 straight truck production partially offset by lower School Bus and Motorhome production
North America Hybrid-Propulsion Systems for Transit Bus	\$61	10%	Principally driven by timing of certain transit property orders
North America Off-Hwy	\$7	(14%)	Principally driven by decreased demand in the mining sector
Defense	\$115	(10%)	Principally driven by decreased Tracked Defense demand and unfavorable mix of increased Wheeled Defense demand
Outside North America On-Hwy	\$305	1%	Principally driven by increased fully-automatic penetration partially offset by continued challenging emerging market demand conditions
Outside North America Off-Hwy	\$12	58%	Principally driven by modest demand improvements in the mining and energy sectors
Service Parts, Support Equipment & Other	\$378	6%	Principally driven by increased demand for North America Off-Highway service parts

Allison expects first quarter net sales to be approximately flat compared to the same period in 2016 principally driven by increased demand expected in the Service Parts, Support Equipment & Other end market offset by decreased demand expected in the North America On-Highway and North America Off-Highway end markets.

2017 Guidance - Summary

	Guidance	Commentary
Net Sales Change from 2016	1.5 to 4.5 percent	Guidance reflects a modest increase in the North American On-Highway end market. Allison's 2017 net sales outlook also assumes price increases on certain products and a continued recovery in the Service Parts, Support Equipment & Other end market principally driven by increased demand for North America Off-Highway service parts partially offset by lower demand in the Defense end market.
Adjusted EBITDA Margin	33.5 to 35.5 percent	
Adjusted Free Cash Flow (\$ in millions)	\$345 to \$385	
CapEx (\$ in millions)		
Maintenance	\$65 to \$70	Subject to timely completion of development and sourcing milestones
New Products	\$5 to \$10	
Cash Income Taxes (\$ in millions)	\$55 to \$65	

APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 2)

Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended		Last twelve
	2011	2012	2013	2014	2015	December 31,		months ended
						2015	2016	December 31,
								2016
Net income	\$103.0	\$514.2	\$165.4	\$228.6	\$182.3	\$13.0	\$61.2	\$214.9
plus:								
Interest expense, net	217.3	151.2	132.9	138.4	114.5	20.8	16.8	100.9
Income tax expense (benefit)	47.6	(298.0)	100.7	139.5	106.5	6.7	33.5	126.4
Fee to terminate services agreement with Sponsors	—	16.0	—	—	—	—	—	—
Technology-related investment expenses	—	14.4	5.0	2.0	—	—	—	1.0
Public offering expenses	—	6.1	1.6	1.4	—	—	—	—
Impairments	—	—	—	15.4	81.3	80.0	—	—
Environmental remediation	—	—	—	—	14.0	—	—	—
Amortization of intangible assets	151.9	150.0	105.3	98.8	97.1	24.2	23.0	92.4
Depreciation of property, plant and equipment	103.8	102.5	98.7	93.8	88.3	22.5	20.7	83.5
Loss on redemptions and repayments of long-term debt	16.0	22.1	0.8	0.5	0.3	0.1	—	—
Stockholder activism expenses	—	—	—	—	—	—	0.2	3.9
Dual power inverter module extended coverage	—	9.4	(2.4)	1.0	(2.1)	—	—	1.3
UAW Local 933 signing bonus	—	8.8	—	—	—	—	—	—
Benefit plan re-measurement	—	2.3	—	—	—	—	—	—
Unrealized loss (gain) on commodity hedge contracts	6.5	(1.0)	1.5	(1.0)	1.1	0.4	—	(1.7)
Unrealized loss (gain) on foreign exchange	0.3	0.1	2.3	5.2	1.4	(0.2)	(0.1)	0.6
Expenses related to long-term debt refinancing	56.9	—	—	—	25.3	—	0.1	11.7
Restructuring charges	—	—	1.0	0.7	—	—	—	—
Other, net ⁽¹⁾	8.6	7.0	13.8	14.7	9.8	2.6	3.0	9.4
Adjusted EBITDA	\$711.9	\$705.1	\$626.6	\$739.0	\$719.8	\$170.1	\$158.4	\$644.3
Net Sales	\$2,162.8	\$2,141.8	\$1,926.8	\$2,127.4	\$1,985.8	\$478.2	\$468.9	\$1,840.2
Adjusted EBITDA margin	32.9%	32.9%	32.5%	34.7%	36.2%	35.6%	33.8%	35.0%

(1) Includes income related to benefit plan adjustments, employee stock compensation expense, service fees paid to Allison's Sponsors

Non-GAAP Reconciliations (2 of 2)

Adjusted Free Cash Flow reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended December 31,		Last twelve months ended December 31,
	2011	2012	2013	2014	2015	2015	2016	2016
Net Cash Provided by Operating Activities	\$469.2	\$497.5	\$463.5	\$573.3	\$579.9	\$174.8	\$175.2	\$590.8
(Deductions) or Additions:								
Long-lived assets	(96.9)	(123.9)	(74.4)	(64.1)	(58.1)	(28.0)	(33.9)	(70.6)
Fee to terminate services agreement with Sponsors	—	16.0	—	—	—	—	—	—
Technology-related license expenses	—	12.0	6.0	6.1	0.2	—	—	—
Stockholder activism expenses	—	—	—	—	—	—	—	3.7
Excess tax benefit from stock-based compensation	—	5.3	13.7	24.6	8.4	0.2	4.3	6.4
Adjusted Free Cash Flow	\$372.3	\$406.9	\$408.8	\$539.9	\$530.4	\$147.0	\$145.6	\$530.3
Net Sales	\$2,162.8	\$2,141.8	\$1,926.8	\$2,127.4	\$1,985.8	\$478.2	\$468.9	\$1,840.2
Adjusted Free Cash Flow (% to Net Sales)	17.2%	19.0%	21.2%	25.4%	26.7%	30.5%	31.1%	28.8%

COOPERATION AGREEMENT

This Cooperation Agreement (this “**Agreement**”) dated February 3, 2017, is by and among the persons and entities listed on Schedule A (collectively, the “**Àshe Group**”, and individually a “**member**” of the Àshe Group), Allison Transmission Holdings, Inc. (the “**Company**”) and William R. Harker, in his individual capacity and as a member of the Àshe Group (the “**Àshe Designee**”).

WHEREAS, the Àshe Group currently beneficially owns 10,031,115 shares of the common stock, par value \$0.01 per share, of the Company (the “**Common Stock**”), which represents approximately 6.07% of the issued and outstanding shares of Common Stock.

WHEREAS, the Nominating and Governance Committee of the Board (the “**Nominating Committee**”) and the Company’s Board of Directors (the “**Board**”) have considered the qualifications of the Àshe Designee and conducted such review as they have deemed appropriate.

WHEREAS, the Board has determined that it is in the best interests of the Company to agree to the appointment of the Àshe Designee on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, In consideration of and reliance upon the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Board Nomination.

(a) If (i) either (1) a person affiliated with ValueAct Capital Management, L.P. or its affiliates (“ValueAct”) (currently Gregory P. Spivy) or (2) a person affiliated with Longview Asset Management, LLC or its affiliates (“Longview”) (currently James A. Star), ceases to serve as a member of the Board for any reason in a circumstance, in either case, in which a replacement director that is a person affiliated with such stockholder is not promptly appointed, the Board shall promptly appoint the Àshe Designee to serve as a director on the Board and thereafter nominate or renominate, as applicable, the Àshe Designee for election to the Board at the Company’s 2017 and 2018 annual meeting of stockholders; (ii) the Board fails to nominate both a director who is a person affiliated with ValueAct and a person affiliated with Longview for election to the Board at the Company’s 2017 or 2018 annual meeting of stockholders, the Board shall nominate or renominate, as applicable, the Àshe Designee for election as a director at the Company’s 2017 and 2018 annual meetings of stockholders; or (iii) either ValueAct or Longview ceases to beneficially own at least 5% of the Company’s outstanding Common Stock, the Board shall nominate or renominate, as applicable, the Àshe Designee for election as a director at the Company’s 2017 and 2018 annual meetings of stockholders; provided that, in the case of any of the foregoing clauses (i) to (iii) of this Section 1(a), (x) the Company shall have completed, to its satisfaction, a customary background check on the Àshe Designee, (y) the Board does not conclude in good faith, after consultation with outside legal counsel, that such appointment would constitute a breach of the directors’ fiduciary duties (it being acknowledged that to the extent the Board makes such a determination the Company shall promptly inform the Àshe Group of such determination and a replacement candidate shall be selected pursuant to Section 1(e) below), and (z) under no circumstances shall the Board be obligated to appoint, nominate or renominate more than one Àshe Designee to the Board pursuant to this Section 1(a).

(b) As a condition to the Àshe Designee’s appointment to the Board, the Àshe Group, including the Àshe Designee, agrees to provide to the Company information required to be or customarily disclosed for directors, candidates for directors, and their affiliates and representatives in a proxy statement or other filings under applicable law or stock exchange rules or listing standards, information in connection with assessing eligibility, independence and other criteria applicable to directors or satisfying compliance and legal obligations, and such other information as reasonably requested by the Company from time to time with respect to the Àshe Group and the Àshe Designee.

(c) The Àshe Designee agrees that, at all times while serving as a member of the Board, he will (i) meet all director independence and other standards of the Company, the New York Stock Exchange and the Securities and Exchange Commission (“SEC”) and applicable provisions of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations promulgated thereunder, including Rule 10A-3; and (ii) be qualified to serve as a director under the Delaware General Corporation Law (the “DGCL”) (clauses (i) and (ii), the “Conditions”). The Àshe Designee will promptly advise the Nominating Committee if he ceases to satisfy any of the Conditions.

(d) At all times while serving as a member of the Board, the Àshe Designee shall comply with all policies, procedures, processes, codes, rules, standards and guidelines applicable to Board members, including the Company’s Code of Business Conduct, Insider Trading Policy, Executive Stock Ownership Policy as in effect on the date hereof, and Corporate Governance Guidelines, and (except as permitted by the Confidentiality Agreement (as defined in Section 7 below)) preserve the confidentiality of Company business and information, including discussions or matters considered in meetings of the Board or Board committees to the extent not disclosed publicly by the Company.

(e) So long as the Àshe Group collectively beneficially owns, in the aggregate, at least 5% of the outstanding Common Stock, if, during the Covered Period, a vacancy on the Board is created as a result of the Àshe Designee’s ceasing to serve as a director for any reason then the Àshe Group and the Company (acting through the Board) shall work together in good faith to fill such vacancy or replace such nominee with an individual who (A) meets the Conditions, (B) meets the historical standards and criteria applied by the Company in nominating and appointing directors, and (C) is otherwise mutually acceptable (in each of their sole discretion) to the Àshe Group and the Company, and thereafter such individual shall serve and/or be nominated as the “Àshe Designee” under this Agreement.

(f) The Company’s obligations hereunder shall terminate immediately, and the Àshe Designee shall promptly offer to resign from the Board, and any committee of the Board on which he then sits (and, if requested by the Company, promptly deliver his written resignation to the Board (which shall provide for his immediate resignation) it being understood that it shall be in the Board’s sole discretion whether to accept or reject such resignation) if: (i) members of the Àshe Group, collectively, cease to beneficially own at least 5% of the Company’s outstanding Common Stock; (ii) the Àshe Designee ceases to satisfy the conditions set forth in clauses (c)-(d) above; (iii) a member of the Àshe Group, including the Àshe Designee, otherwise ceases to comply or breaches any of the terms of this Agreement or the Confidentiality Agreement in any material respect and such breach continues after notice from the Company and a 10 day opportunity to cure; or (iv) the employment of the Àshe Designee with the Àshe Group is terminated for any reason. The Àshe Group agrees to cause the Àshe Designee to resign from the Board if the Àshe Designee fails to resign if and when requested pursuant to this Section 1(f). Notwithstanding the foregoing, in the event of the occurrence of an event set forth in subsection (ii) or (iv) above, the provisions of Section 1(e) must be complied with and the Company’s obligations hereunder shall not terminate.

(g) The percentage thresholds set forth in clauses (e) and (f) above shall not be deemed unsatisfied to the extent a failure to maintain the specified ownership thresholds is the result of share issuances or similar Company actions that increase the number of outstanding shares of Common Stock.

2. Standstill.

(a) Each member of the Àshe Group agrees that, during the Covered Period, (unless specifically requested in writing by the Company, acting through a resolution of a majority of the Company’s directors not including the Àshe Designee), it shall not, and shall cause each of its Affiliates or Associates (as such terms are defined in Rule 12b-2 promulgated by the SEC under the Exchange Act) (collectively and individually, the “*Àshe Affiliates*”), not to, directly or indirectly, in any manner, alone or in concert with others:

(i) make, engage in, or in any way participate in, directly or indirectly, any “solicitation” of proxies (as such terms are used in the proxy rules of the SEC but without regard to the exclusion set forth in Rule 14a-1(l)(2)(iv) of the Exchange Act) or consents to vote, or seek to advise, encourage or influence any person with respect to the voting of any securities of the Company or any securities convertible or exchangeable into or exercisable for any such securities (collectively, “*securities of the Company*”) for the election of individuals to the Board or to approve stockholder proposals, or become a “participant” in any contested “solicitation” for the election of directors with respect to the Company (as such terms are defined or used under the Exchange Act) (other than a “solicitation” or acting as a “participant” in support of all of the nominees of the Board at any stockholder meeting) or make or be the proponent of any stockholder proposal (pursuant to Rule 14a-8 under the Exchange Act or otherwise);

(ii) form, join, encourage, influence, advise or in any way participate in any Group (as such term is defined in Section 13(d)(3) of the Exchange Act) with any persons who are not Àshe Affiliates with respect to any securities of the Company or otherwise in any manner agree, attempt, seek or propose to deposit any securities of the Company in any voting trust or similar arrangement, or subject any securities of the Company to any arrangement or agreement with respect to the voting thereof, except as expressly set forth in this Agreement;

(iii) acquire, offer or propose to acquire, or agree to acquire, directly or indirectly, whether by purchase, tender or exchange offer, through the acquisition of control of another person, by joining a partnership, limited partnership, syndicate or other group (including any group of persons that would be treated as a single “person” under Section 13(d) of the Exchange Act), through swap or hedging transactions or otherwise, any securities of the Company or any rights decoupled from the underlying securities of the Company that would result in the Àshe Group (together with the Àshe Affiliates) owning, controlling or otherwise having any beneficial or other ownership interest in more than 7.5% in the aggregate of the shares of Common Stock outstanding at such time; provided, that, nothing herein will require Common Stock to be sold to the extent the Àshe Group and the Àshe Affiliates, collectively, exceed the ownership limit under this paragraph as the result of a share repurchase or similar Company actions that reduces the number of outstanding shares of Common Stock;

(iv) sell, offer or agree to sell directly or indirectly, through swap or hedging transactions or otherwise, the securities of the Company or any rights decoupled from the underlying securities of the Company held by the Àshe Group or any Àshe Affiliate to any person or entity not a (A) party to this Agreement, (B) member of the Board, (C) officer of the Company or (D) Àshe Affiliate (any person or entity not set forth in clauses (A)-(D) shall be referred to as a “**Third Party**”), that would knowingly result in such Third Party, together with its affiliates and associates, owning, controlling or otherwise having any beneficial or other ownership interest in the aggregate of more than 4.9% of the shares of Common Stock outstanding at such time, except in a transaction approved by the Board;

(v) effect or seek to effect, offer or propose to effect, cause or participate in, or in any way assist or facilitate any other person to effect or seek, offer or propose to effect or participate in, any tender or exchange offer, merger, consolidation, acquisition, scheme, arrangement, business combination, recapitalization, reorganization, sale or acquisition of material assets, liquidation, dissolution or other extraordinary transaction involving the Company or any of its subsidiaries or joint ventures or any of their respective securities (each, an “**Extraordinary Transaction**”), or make any public statement with respect to an Extraordinary Transaction; provided, however, that this clause shall not preclude the tender by the Àshe Group or a Àshe Affiliate of any securities of the Company into any tender or exchange offer or vote by the Àshe Group or a Àshe Affiliate of any securities of the Company with respect to any Extraordinary Transaction;

(vi) engage in any short sale or any purchase, sale or grant of any option, warrant, convertible security, stock appreciation right, or other similar right (including, without limitation, any put or call option or “swap” transaction) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from a decline in the market price or value of the securities of the Company;

(vii) (A) call or seek to call any meeting of stockholders, including by written consent, (B) seek representation, on or nominate any candidate to, the Board, except as set forth herein, (C) seek the removal of any member of the Board, (D) solicit consents from stockholders or otherwise act or seek to act by written consent, (E) conduct a referendum of stockholders, or (F) make a request for any stockholder list or other Company books and records, whether pursuant to Section 220 of the DGCL or otherwise;

(viii) take any action in support of or make any proposal or request that constitutes: (A) advising, controlling, changing or influencing the Board or management of the Company, including any plans or proposals to change the number or term of directors or to fill any vacancies on the Board; (B) any material change in the capitalization, stock repurchase programs and practices or dividend policy of the Company; (C) any other material change in the Company's management, business or corporate structure; (D) seeking to have the Company waive or make amendments or modifications to the Company's Certificate of Incorporation or Bylaws, or other actions that may impede or facilitate the acquisition of control of the Company by any person; (E) causing a class of securities of the Company to be delisted from, or to cease to be authorized to be quoted on, any securities exchange; or (F) causing a class of securities of the Company to become eligible for termination of registration pursuant to Section 12(g)(4) of the Exchange Act;

(ix) disparage or cause to be disparaged the Company or Affiliates thereof, any of its or their respective current or former officers, or any of its or their respective directors;

(x) make any public disclosure, announcement or statement regarding any intent, purpose, plan or proposal with respect to the Board, the Company, its management, policies or affairs, any of its securities or assets or this Agreement that is inconsistent with the provisions of this Agreement;

(xi) enter into any discussions, negotiations, agreements, or understandings with any Third Party with respect to any of the foregoing, or advise, assist, knowingly encourage or seek to persuade any Third Party to take any action or make any statement with respect to any of the foregoing, or otherwise take or cause any action or make any statement inconsistent with any of the foregoing; or

(xii) request, directly or indirectly, any amendment or waiver of the foregoing.

The foregoing provisions of this Section 2(a) shall not be deemed to prohibit the Àshe Group or its directors, officers, partners, employees, members or agents (acting in such capacity) ("**Representatives**") from communicating privately with the Company's directors, officers or advisors so long as such communications are not intended to, and would not reasonably be expected to, require any public disclosure of such communications.

(b) Each member of the Àshe Group shall, during the Covered Period, cause all shares of Common Stock beneficially owned, directly or indirectly, by it, or by any Àshe Affiliate, to be present for quorum purposes and to be voted, at the Company's annual and special stockholder meetings and at any adjournments or postponements thereof, and further agrees that at all such meetings they shall vote in favor of (i) all directors nominated by the Board for election at such meeting and (ii) in accordance with the Board's recommendation with respect to any proposals that may be the subject of stockholder action at such meeting, other than with respect to (a) an Extraordinary Transaction, (b) any proposed issuance of Company securities or (c) any proposal to implement any takeover defense measures or any other proposal that would diminish or otherwise impair in any material respect the rights of Company shareholders.

(c) The Àshe Group acknowledges that the Àshe Designee shall have all of the rights and obligations, including fiduciary duties to the Company and its stockholders, of a director under applicable law and the Company's organizational documents while the Àshe Designee is serving on the Board. Notwithstanding the foregoing, nothing in this Section 2 shall limit any actions that may be taken by the Àshe Designee acting solely as a director of the Company consistent with his fiduciary duties as a director of the Company.

For purposes of this Agreement the terms “*person*” or “*persons*” shall mean any individual, corporation (including not-for-profit), general or limited partnership, limited liability or unlimited liability company, joint venture, estate, trust, association, organization or other entity of any kind or nature.

3. Representations of the Company. The Company represents and warrants as follows: (a) the Company has the power and authority to execute, deliver and carry out the terms and provisions of this Agreement and to consummate the transactions contemplated hereby; and (b) this Agreement has been duly and validly authorized, executed and delivered by the Company, constitutes a valid and binding obligation and agreement of the Company and is enforceable against the Company in accordance with its terms.

4. Representations of the Àshe Group. The Àshe Group, jointly and severally, represent and warrant as follows: (a) the Àshe Group has the power and authority to execute, deliver and carry out the terms and provisions of this Agreement and to consummate the transactions contemplated hereby; (b) this Agreement has been duly and validly authorized, executed and delivered by the Àshe Group, constitutes a valid and binding obligation and agreement of the Àshe Group and is enforceable against the Àshe Group in accordance with its terms; and (c) the Àshe Group, together with the Àshe Affiliates, beneficially owns, directly or indirectly, an aggregate of 10,031,115 shares of Common Stock and such shares of Common Stock constitute all of the Common Stock beneficially owned by the Àshe Group and the Àshe Affiliates or in which the Àshe Group or the Àshe Affiliates have any interest or right to acquire, whether through derivative securities, voting agreements or otherwise; and (d) as of the date of this Agreement, the Àshe Designee satisfies all of the Conditions.

5. Termination.

(a) This Agreement is effective as of the date hereof and shall remain in full force and effect for the period (the “**Covered Period**”) commencing on the date hereof and ending on the date that is the earliest of: (i) the failure of the Company to comply in good faith with Section 1(a) or (e) of this Agreement or (ii) the day which is 30 days prior to the last day on which a shareholder must give notice to the Company of such shareholder’s intention to nominate a person for election as a director or to present a proposal at the Company’s 2019 annual meeting of stockholders; provided, however, that, in any event, Section 2 shall survive for so long as any Àshe Designee serves as a member of the Board.

(b) The provisions of Section 1(d) this Section 5, Section 8 through Section 17 (and, for the avoidance of doubt, the Confidentiality Agreement) shall survive the termination of this Agreement. No termination pursuant to Section 5(a) shall relieve any party hereto from liability for any breach of this Agreement prior to such termination.

6. Public Announcement and SEC Filing.

(a) The Company shall file promptly a Form 8-K reporting entry into this Agreement (the “**Form 8-K**”) and appending or incorporating by reference this Agreement as an exhibit thereto.

(b) The Àshe Group shall promptly, but not prior to the filing of the Form 8-K by the Company pursuant to Section 6(a) hereof, provided that such filing of the Form 8-K is within two business days of the date hereof, file an amendment to its Schedule 13D with respect to the Company filed with the SEC on November 6, 2015 (the “**Àshe Schedule 13D**”), reporting the entry into this Agreement. None of the Àshe Group, the Àshe Affiliates or the Àshe Designee shall (i) issue a press release in connection with this Agreement or the actions contemplated hereby or (ii) otherwise make any public statement, disclosure or announcement with respect to this Agreement or the actions contemplated hereby, other than as mutually agreed to by the Company and the Àshe Group.

(c) The Company shall promptly issue a press release in connection with this Agreement and in the form attached hereto as Exhibit A (the “**Press Release**”), which is expressly agreed to by the Àshe Group.

7. Non-Disparagement. The Company hereby agrees that, during the term of this Agreement, it shall not disparage or cause to be disparaged the Àshe Group, or any of its current or former partners or investors; provided, however, that (a) that the Company's agreement under this Section 7 shall be limited to official statements issued by the Company as an organization and statements of officers of the Company and members of the Board in their official capacity as representatives of the Company; and (b) nothing in this Section 7 shall preclude the Company, the members of the Board or the officers of the Company from making truthful statements that are reasonably necessary to comply with applicable law, regulation or legal process.

8. Confidentiality Agreement. The Company hereby agrees that, notwithstanding any other provision of this Agreement to the contrary, the Àshe Group may be provided confidential information in accordance with and subject to the terms of a Confidentiality Agreement in the form attached hereto as Exhibit A (the "**Confidentiality Agreement**"), after the Confidentiality Agreement has been mutually executed and delivered concurrently with the appointment of the Àshe Designee to the Board pursuant to the terms of this Agreement.

9. Compensation. The Àshe Designee shall participate in all director compensation and benefit programs in which the Company's other non-employee directors participate. The Company acknowledges that pursuant to the Àshe Group's policies, cash, equity awards and other property received by the Àshe Designee are held by such person for the benefit of certain members of the Àshe Group. The Company agrees that it will seek board or appropriate committee approval of all stock-based awards made to the Àshe Designee so that the grant of such awards shall be exempt from Section 16(b) of the Exchange Act by virtue of Rule 16b-3 thereunder. Without limiting the foregoing, the Company also acknowledges that as a result of the Àshe Designee's service on the Board, members of the Àshe Group may be considered directors of the Company by deputation under applicable interpretations of Section 16 of the Exchange Act. The Company agrees that it will seek board or appropriate committee approval for purposes of Rule 16b-3 for all transactions in classes of Company securities subject to Section 16 and involving the Àshe Designee or any member of the Àshe Group who may be considered a "director by deputation" or who may be deemed to have an indirect interest in the transaction in question.

10. Miscellaneous. The parties agree that irreparable damage would occur in the event any of the provisions of this Agreement were not performed in accordance with the terms hereof and that such damage would not be adequately compensable in monetary damages. Accordingly, the parties hereto shall be entitled to an injunction or injunctions to prevent breaches of this Agreement, to enforce specifically the terms and provisions of this Agreement exclusively in the Court of Chancery or other federal or state courts of the State of Delaware and to require the resignation of the Àshe Designee from the Board commencing on the date that is 10 days following the date that the Àshe Designee and/or the Àshe Group materially breaches its obligations under this Agreement, provided, that, such breach has not been cured prior to the expiration of such 10-day period, in addition to any other remedies at law or in equity, and each party agrees it will not take any action, directly or indirectly, in opposition to another party seeking relief. Each of the parties hereto agrees to waive any bonding requirement under any applicable law, in the case any other party seeks to enforce the terms by way of equitable relief. Furthermore, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of the Court of Chancery or other federal or state courts of the State of Delaware in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (b) agrees that it shall not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it shall not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than the Court of Chancery or other federal or state courts of the State of Delaware, and each of the parties irrevocably waives the right to trial by jury, and (d) each of the parties irrevocably consents to service of process by a reputable overnight mail delivery service, signature requested, to the address set forth in Section 13 of this Agreement or as otherwise provided by applicable law. THIS AGREEMENT SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING WITHOUT LIMITATION VALIDITY, INTERPRETATION AND EFFECT, BY THE LAWS OF THE STATE OF DELAWARE APPLICABLE TO CONTRACTS EXECUTED AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE WITHOUT GIVING EFFECT TO THE CHOICE OF LAW PRINCIPLES OF SUCH STATE.

11. Expenses. All attorneys' fees, costs and expenses incurred in connection with this Agreement and all matters related hereto will be paid by the party incurring such fees, costs or expenses.

12. Entire Agreement; Amendment. This Agreement and the Confidentiality Agreement contain the entire agreement and understanding of the parties with respect to the subject matter hereof and supersede any and all prior and contemporaneous agreements, memoranda, arrangements and understandings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof. This Agreement may be amended only by an agreement in writing executed by the parties hereto, and no waiver of compliance with any provision or condition of this Agreement and no consent provided for in this Agreement shall be effective unless evidenced by a written instrument executed by the party against whom such waiver or consent is to be effective. No failure or delay by a party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.

13. Notices. All notices, consents, requests, instructions, approvals and other communications provided for herein and all legal process in regard hereto shall be in writing and shall be deemed validly given, made or served, when delivered in person or sent by overnight courier, when actually received during normal business hours at the address specified in this subsection:

If to the Company:	Allison Transmission Holdings, Inc. Mail Code L-25 One Allison Way Indianapolis, IN 46222-3271 Attention: General Counsel
If to the Àshe Group:	Àshe Capital Management, LP 530 Sylvan Avenue, Suite 101 Englewood Cliffs, New Jersey 07632 Attention: President

14. Severability. If at any time subsequent to the date hereof, any provision of this Agreement shall be held by any court of competent jurisdiction to be illegal, void or unenforceable, such provision shall be of no force and effect, but the illegality or unenforceability of such provision shall have no effect upon the legality or enforceability of any other provision of this Agreement.

15. Counterparts. This Agreement may be executed in two or more counterparts either manually or by electronic or digital signature (including by facsimile or electronic mail transmission), each of which shall be deemed to be an original and all of which together shall constitute a single binding agreement on the parties, notwithstanding that not all parties are signatories to the same counterpart.

16. No Third Party Beneficiaries; Assignment. This Agreement is solely for the benefit of the parties hereto and is not binding upon or enforceable by any other persons. No party to this Agreement may assign its rights or delegate its obligations under this Agreement, whether by operation of law or otherwise, and any assignment in contravention hereof shall be null and void. Nothing in this Agreement, whether express or implied, is intended to or shall confer any rights, benefits or remedies under or by reason of this Agreement on any persons other than the parties hereto, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third persons to any party.

17. Interpretation and Construction. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement, unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" and "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The word "will" shall be construed to have the same meaning as the word "shall." The words "dates hereof" will refer to the date of this Agreement. The word "or" is not exclusive. The definitions

contained in this Agreement are applicable to the singular as well as the plural forms of such terms. Any agreement, instrument, law, rule or statute defined or referred to herein means, unless otherwise indicated, such agreement, instrument, law, rule or statute as from time to time amended, modified or supplemented. Each of the parties hereto acknowledges that it has been represented by counsel of its choice throughout all negotiations that have preceded the execution of this Agreement, and that it has executed the same with the advice of said independent counsel. Each party cooperated and participated in the drafting and preparation of this Agreement and the documents referred to herein, and any and all drafts relating thereto exchanged among the parties shall be deemed the work product of all of the parties and may not be construed against any party by reason of its drafting or preparation. Accordingly, any rule of law or any legal decision that would require interpretation of any ambiguities in this Agreement against any party that drafted or prepared it is of no application and is hereby expressly waived by each of the parties hereto, and any controversy over interpretations of this Agreement shall be decided without regards to events of drafting or preparation.

[Signature Pages Follow]

IN WITNESS WHEREOF, each of the parties hereto has executed this COOPERATION AGREEMENT or caused the same to be executed by its duly authorized representative as of the date first above written.

Allison Transmission Holdings, Inc.

By: /s/ Eric C. Scroggins
Name: Eric C. Scroggins
Title: Vice President, General Counsel and Secretary

[Signature Page to Cooperation Agreement]

IN WITNESS WHEREOF, each of the parties hereto has executed this COOPERATION AGREEMENT or caused the same to be executed by its duly authorized representative as of the date first above written.

Àshe Capital Management, LP

By: /s/ William R. Harker
Name: William R. Harker
Title:

Àshe Capital Partners, LP

By: /s/ William R. Harker
Name: William R. Harker
Title:

Àshe Capital Partners Co-Invest, LP

By: /s/ William R. Harker
Name: William R. Harker
Title:

Àshe Capital Partners Co-Invest II, LP

By: /s/ William R. Harker
Name: William R. Harker
Title:

Àshe Capital Partners Co-Invest III, LP

By: /s/ William R. Harker
Name: William R. Harker
Title:

/s/ William R. Harker
William R. Harker

[Signature Page to Cooperation Agreement]

Schedule A

Members of Àshe Group

Àshe Capital Management, LP

Àshe Capital Partners, LP

Àshe Capital Partners Co-Invest, LP

Àshe Capital Partners Co-Invest II, LP

Àshe Capital Partners Co-Invest III, LP

William R. Harker

Exhibit A

Press Release

Exhibit B

Confidentiality Agreement



Allison Transmission announces Stock Repurchase Agreement with ValueAct Capital and Cooperation Agreement with Ashe Capital

INDIANAPOLIS, February 6, 2017 – Allison Transmission Holdings Inc. (NYSE: ALSN) today announced that it has entered into a Stock Repurchase Agreement with ValueAct Capital Master Fund, L.P. (“ValueAct Capital”) and has entered into a Cooperation Agreement with Ashe Capital Management LP (“Ashe Capital”). The Company also announced that William R. Harker of Ashe Capital will be nominated for election to the Company’s board of directors at the Company’s 2017 annual meeting of stockholders, taking the place of Gregory P. Spivy of ValueAct Capital, who has indicated that he will not stand for reelection.

“The Stock Repurchase Agreement with ValueAct Capital accelerates the share repurchase program authorized last fall by Allison Transmission’s board of directors and reflects our growing confidence in what we believe is improved momentum in several of our end markets,” said Lawrence E. Dewey, chairman and CEO of the Company. “We would like to thank Mr. Spivy and ValueAct Capital for the productive and positive relationship enjoyed by both parties. Allison Transmission and Ashe Capital have engaged in a series of thoughtful discussions about our business. We value our stockholders’ input and look forward to working closely with Mr. Harker and Ashe Capital, maintaining meaningful stockholder representation on our board.”

“We have had a constructive dialogue with the management team at Allison Transmission since we first invested in the company in October 2013,” said William R. Harker, Co-founder and President of Ashe Capital Management. “We look forward to working with management and the board to execute Allison’s business strategy and continue to grow its long-term value per share.”

Under the terms of the Stock Repurchase Agreement with ValueAct Capital, the Company has agreed to repurchase 10,525,204 shares of the Company’s common stock, which is all of ValueAct Capital’s holdings in the Company, at a purchase price of \$34.50 per share, representing aggregate consideration of approximately \$363 million. The transaction is expected to close on or about February 8, 2017, subject to customary closing conditions. In connection with the Company’s repurchase of ValueAct Capital’s stock, Mr. Spivy has notified the Company’s board of directors that he will not stand for re-election at the 2017 annual meeting of stockholders.

Allison Transmission intends to fund the repurchase with cash on hand and borrowing under its revolving credit facility. The repurchase is being effected under the \$1 billion common stock repurchase program authorized by the board of directors in November 2016 after completing a review of the Company’s business plan including product development and capital spending forecasts supporting growth initiatives and other shareholder value enhancing programs. The Company remains committed to maintaining a prudent capital structure commensurate with its business plan and underlying end markets, and expects to complete the aforementioned common stock repurchase program by December 2019.

The Cooperation Agreement provides for the nomination of Mr. Harker for election to the Company's board of directors and includes customary "standstill" provisions, by which Ashe Capital has agreed that it will not submit any nominations for election to the board of directors or stockholder proposals and will vote in favor of the election of the Company's board nominees and certain other proposals.

The Stock Repurchase Agreement and Cooperation Agreement are included as exhibits to the Current Report on Form 8-K filed by the Company today with the Securities and Exchange Commission.

Contacts

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About Allison Transmission

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

Forward-Looking Statements

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