
**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) July 29, 2013

ALLISON TRANSMISSION HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-35456
(Commission
File Number)

26-0414014
(IRS Employer
Identification No.)

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

46222
(Zip Code)

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

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

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

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

On July 29, 2013, Allison Transmission Holdings, Inc. ("Allison") published an earnings release reporting its financial results for the three months ended June 30, 2013. A copy of the earnings release is attached as Exhibit 99.1 hereto. Following the publication of the earnings release, Allison will host an earnings call on which its financial results for the three months ended June 30, 2013 will be discussed. The investor presentation materials that will be used for the call are attached as Exhibit 99.2 hereto.

On July 29, 2013, Allison posted the materials attached as Exhibits 99.1 and 99.2 on its web site (www.allisontransmission.com).

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

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

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Earnings release dated July 29, 2013.
99.2	Investor presentation materials dated July 29, 2013.

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: July 29, 2013

By: /s/ Eric C. Scroggins

Name: Eric C. Scroggins

Title: Vice President, General Counsel and Secretary

EXHIBIT INDEX

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News Release

Allison Transmission Announces Second Quarter 2013 Results

- **Net Sales \$512 million, Adjusted Net Income \$89 million and Adjusted Free Cash Flow \$117 million**
- **Adjusted EBITDA \$172 million or 33.5 percent of Net Sales**

INDIANAPOLIS, July 29, 2013 – Allison Transmission Holdings Inc. (NYSE: ALSN), the largest global provider of commercial duty fully-automatic transmissions and hybrid-propulsion systems, today reported net sales for the quarter of \$512 million, an 8 percent decrease from the same period in 2012. Adjusted Net Income, a non-GAAP financial measure, for the quarter was \$89 million, compared to Adjusted Net Income of \$87 million for the same period in 2012, an increase of \$2 million. Diluted earnings per share for the quarter were \$0.26.

The decrease in net sales was principally driven by lower demand in the North America energy sector's hydraulic fracturing market, relative to the same period in 2012, previously considered reductions in U.S. defense spending and weakness in the Outside North America Off-Highway mining sector end market. Partially offsetting these declines were higher demand for North America hybrid-propulsion systems for transit buses principally driven by intra-year movement in the timing of orders and strength in the Outside North America Off-Highway energy sector end market. Net sales to the North America On-Highway end market, our largest, were flat with the same period in 2012, an improvement relative to the year-over-year performance in the first quarter.

Adjusted EBITDA, a non-GAAP financial measure, for the quarter was \$172 million, or 33.5 percent of net sales, compared to \$191 million, or 34.1 percent of net sales, for the same period in 2012. Adjusted Free Cash Flow, also a non-GAAP financial measure, for the quarter was \$117 million compared to \$80 million for the same period in 2012.

Lawrence E. Dewey, Chairman, President and Chief Executive Officer of Allison Transmission commented, "In the second quarter, Allison continued to demonstrate strong operating margins and cash flow by executing initiatives to proactively align costs and programs across our business as our revenue trajectory improved relative to the first quarter of the year. The anticipated near-term improvement in global On-Highway end markets notwithstanding, we will continue to aggressively align costs and investments with growth plans and our commitments to cash flow generation and the return of capital to shareholders."

Second Quarter Net Sales by End Market

End Market	Q2 2013	Q2 2012	% Variance
	Net Sales (\$M)	Net Sales (\$M)	
North America On-Highway	\$ 216	\$ 217	0%
North America Hybrid-Propulsion Systems for Transit Bus	\$ 27	\$ 18	50%
North America Off-Highway	\$ 8	\$ 44	(82%)
Defense	\$ 58	\$ 80	(28%)
Outside North America On-Highway	\$ 75	\$ 78	(4%)
Outside North America Off-Highway	\$ 36	\$ 30	20%
Service Parts, Support Equipment & Other	\$ 92	\$ 92	0%
Total Net Sales	\$ 512	\$ 559	(8%)

Second Quarter Highlights

North America On-Highway end market net sales were flat with the same period in 2012 and up 15 percent sequentially, principally driven by higher demand for Rugged Duty and Bus Series models.

North America Hybrid-Propulsion Systems for Transit Bus end market net sales were up 50 percent from the same period in 2012 principally driven by intra-year movement in the timing of orders.

North America Off-Highway end market net sales were down 82 percent from the same period in 2012 principally driven by lower demand from hydraulic fracturing applications, but for the first time in five quarters, essentially flat sequentially.

Defense end market net sales were down 28 percent from the same period in 2012 principally driven by continued reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts.

Outside North America On-Highway end market net sales were down 4 percent from the same period in 2012 reflecting weakness in China, principally driven by the timing of bus tenders, and commercial vehicle production schedule volatility in several other regional end markets, partially offset by improved demand conditions in Europe.

Outside North America Off-Highway end market net sales were up 20 percent from the same period in 2012 principally driven by strength in the energy sector, partially offset by weakness in the mining sector.

Service Parts, Support Equipment & Other end market net sales were flat with the same period in 2012.

Gross profit for the quarter was \$226 million, a decrease of 10 percent from gross profit of \$252 million for the same period in 2012. Gross margin for the quarter was 44.2 percent, a decrease of 80 basis points from a gross margin of 45.0 percent for the same period of 2012. The decrease in gross profit from the same period in 2012 was principally driven by decreased net sales, partially offset by favorable foreign exchange.

Selling, general and administrative expenses for the quarter were \$86 million, a decrease of 22 percent from selling, general and administrative expenses of \$109 million for the same period in 2012. The decrease was principally driven by \$12 million of lower intangible asset amortization, a \$9 million charge for the Dual Power Inverter Module ("DPIM") extended coverage program in 2012 and reduced global commercial spending activities, partially offset by \$2 million of higher employee stock compensation expense.

Engineering – research and development expenses for the quarter were \$23 million, essentially flat with the same period in 2012.

Second Quarter Non-GAAP Financial Measures

Adjusted EBITDA for the quarter was \$172 million, or 33.5 percent of net sales, compared to \$191 million, or 34.1 percent of net sales, for the same period in 2012. The decrease in Adjusted EBITDA from the same period in 2012 was principally driven by decreased net sales, partially offset by reduced global commercial spending activities.

Adjusted Net Income for the quarter was \$89 million compared to \$87 million for the same period in 2012. The increase in Adjusted Net Income was principally driven by reduced global commercial spending activities, decreased cash interest expense as a result of debt repayment and refinancing, \$8 million of premiums and expenses in 2012 related to redemptions of long-term debt, and a \$9 million charge for the DPIM extended coverage program in 2012, partially offset by decreased net sales and higher employee stock compensation expense.

Adjusted Free Cash Flow for the quarter was \$117 million compared to \$80 million for the same period in 2012. The increase was principally driven by increased net cash provided by operating activities and reduced capital expenditures. The decrease in capital expenditures was principally driven by the 2012 expansion of our India facility and lower 2013 product initiatives spending.

Full Year 2013 Guidance Update

Our updated full year 2013 guidance includes Adjusted EBITDA excluding technology-related license expenses in the range of \$630 to \$660 million and Adjusted Free Cash Flow in the range of \$325 to \$375 million, consistent with the ranges for such measures implied in our prior guidance ranges. We expect to achieve these levels on revised net sales for full year 2013 in the range of \$1,920 to \$1,960 million, implying an Adjusted EBITDA margin excluding technology-related license expenses in the range of 32 to 34 percent, consistent with our prior Adjusted EBITDA margin excluding technology-related license expenses guidance.

In the second half of 2013, we expect net sales to stabilize on a year-over-year basis, an improvement relative to the sales decline in the first half of the year. We believe there are improving trends in the second half of 2013 which we expect to be driven by strong year-over-year growth in global On-Highway end markets and abating year-over-year declines in the North America Off-Highway end market. We continue to focus on delivering our Adjusted EBITDA excluding technology-related license expenses and Adjusted Free Cash Flow commitments through the execution of initiatives that align costs and programs across our business with end markets demand conditions. We also believe Allison is well positioned for a cyclical recovery in the North America On-Highway end market while supporting its Outside North America growth plans. Finally, we are updating our full year 2013 guidance for capital expenditures to a range of \$75 to \$85 million and cash income taxes to a range of \$10 to \$15 million.

Conference Call and Webcast

The company will host a conference call at 4:30 p.m. EDT on Monday July 29 to discuss its second quarter 2013 results. Dial-in number is 719-325-2463 and the U.S. toll-free dial-in number is 888-510-1765. The passcode for the call is 5027232. 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 7:30 p.m. EDT on July 29 until 11:59 p.m. EDT on August 5. The replay dial-in number is 858-384-5517 and the U.S. toll-free replay dial-in number is 877-870-5176. The replay passcode is 5027232.

About Allison Transmission

Allison Transmission is the world's largest manufacturer of fully-automatic transmissions for medium- and heavy-duty commercial vehicles, medium- and heavy-tactical U.S. defense vehicles and hybrid-propulsion systems for transit buses. Allison transmissions are used in a variety of applications including on-highway trucks (distribution, refuse, construction, fire and emergency), buses (primarily school and transit), motor homes, off-highway vehicles and equipment (primarily energy and mining) and defense vehicles (wheeled and tracked). Founded in 1915, the Allison business is headquartered in Indianapolis, Ind., USA and employs approximately 2,800 people. Allison has manufacturing facilities and customization centers located in China, The Netherlands, Brazil, India and Hungary. With a global presence, serving customers in North America, Europe, Asia, Australia, South America, and Africa, Allison also has approximately 1,400 independent distributor and dealer locations worldwide. More information about Allison is available at www.allisontransmission.com.

Forward-Looking Statements

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

Use of Non-GAAP Financial Measures

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

Attachment

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

Contacts

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 512.1	\$ 559.4	\$ 969.5	\$ 1,161.3
Cost of sales	286.0	307.5	545.1	625.6
Gross profit	226.1	251.9	424.4	535.7
Selling, general and administrative expenses	85.6	109.1	173.5	210.3
Engineering - research and development	22.8	23.2	51.8	51.1
Operating income	117.7	119.6	199.1	274.3
Interest expense, net	(33.3)	(34.1)	(67.2)	(74.8)
Other expense, net	(2.6)	(22.8)	(5.7)	(53.6)
Income before income taxes	81.8	62.7	126.2	145.9
Income tax (expense) benefit	(31.3)	350.1	(48.2)	324.9
Net income	<u>\$ 50.5</u>	<u>\$ 412.8</u>	<u>\$ 78.0</u>	<u>\$ 470.8</u>
Basic earnings per share attributable to common stockholders	<u>\$ 0.27</u>	<u>\$ 2.28</u>	<u>\$ 0.42</u>	<u>\$ 2.60</u>
Diluted earnings per share attributable to common stockholders	<u>\$ 0.26</u>	<u>\$ 2.21</u>	<u>\$ 0.41</u>	<u>\$ 2.55</u>

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

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 227.4	\$ 80.2
Accounts receivables - net of allowance for doubtful accounts of \$1.2 and \$0.9, respectively	208.5	165.0
Inventories	162.9	157.1
Deferred income taxes, net	56.7	55.3
Other current assets	31.1	32.7
Total Current Assets	686.6	490.3
Property, plant and equipment, net	563.3	596.2
Intangible assets, net	3,602.1	3,657.1
Deferred income taxes, net	1.1	32.3
Other non-current assets	84.7	90.1
TOTAL ASSETS	\$ 4,937.8	\$ 4,866.0
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 168.4	\$ 133.1
Current portion of long term debt	23.5	19.5
Other current liabilities	222.1	225.2
Total Current Liabilities	414.0	377.8
Long term debt	2,785.5	2,801.3
Other non-current liabilities	309.3	330.0
TOTAL LIABILITIES	3,508.8	3,509.1
TOTAL STOCKHOLDERS' EQUITY	1,429.0	1,356.9
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 4,937.8	\$ 4,866.0

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net cash provided by operating activities	\$ 129.7	\$ 106.9	\$ 184.4	\$ 246.5
Net cash used for investing activities	(11.5)	(34.6)	(30.6)	(70.0)
- Additions of long-lived assets	(13.2)	(26.8)	(25.8)	(62.5)
Net cash used for financing activities	(19.8)	(170.3)	(17.7)	(388.1)
Effect of exchange rate changes in cash	8.1	17.2	11.1	9.7
Net increase (decrease) in cash and cash equivalents	106.5	(80.8)	147.2	(201.9)
Cash and cash equivalents at beginning of period	120.9	192.9	80.2	314.0
Cash and cash equivalents at end of period	<u>\$ 227.4</u>	<u>\$ 112.1</u>	<u>\$ 227.4</u>	<u>\$ 112.1</u>
Supplemental disclosures:				
Interest paid	\$ 49.6	\$ 52.7	\$ 79.6	\$ 88.8
Income taxes paid	\$ 1.8	\$ 3.5	\$ 3.0	\$ 6.4

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

	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Net income	\$ 50.5	\$ 412.8	\$ 78.0	\$ 470.8
plus:				
Interest expense, net	33.3	34.1	67.2	74.8
Cash interest expense	(49.6)	(52.7)	(79.6)	(88.8)
Income tax expense (benefit)	31.3	(350.1)	48.2	(324.9)
Cash income taxes	(1.8)	(3.5)	(3.0)	(6.4)
Fee to terminate services agreement with the Sponsors (a)	—	—	—	16.0
Public offering expenses (b)	0.6	0.4	0.6	6.1
Technology-related investments expense (c)	—	8.0	2.5	8.0
Amortization of intangible assets	25.1	37.5	55.0	75.0
Adjusted net income	\$ 89.4	\$ 86.5	\$ 168.9	\$ 230.6
Cash interest expense	49.6	52.7	79.6	88.8
Cash income taxes	1.8	3.5	3.0	6.4
Depreciation of property, plant and equipment	25.0	25.3	49.7	49.9
Restructuring charge (d)	1.0	—	1.0	—
Unrealized loss on hedge contracts (e)	0.5	1.7	2.4	1.0
Loss on redemptions and repayments of long-term debt (f)	—	7.6	—	21.1
Dual power inverter module extended coverage (g)	—	9.4	—	9.4
Benefit plan re-measurement (h)	—	2.3	—	2.3
Other (i)	4.3	1.7	7.7	4.2
Adjusted EBITDA	\$ 171.6	\$ 190.7	\$ 312.3	\$ 413.7
Adjusted EBITDA excluding technology-related license expenses (j)	\$ 171.6	\$ 190.7	\$ 318.3	\$ 413.7
Net sales	\$ 512.1	\$ 559.4	\$ 969.5	\$ 1,161.3
Adjusted EBITDA margin	33.5%	34.1%	32.2%	35.6%
Adjusted EBITDA margin excluding technology-related license expenses (j)	33.5%	34.1%	32.8%	35.6%
Net Cash Provided by Operating Activities	\$ 129.7	\$ 106.9	\$ 184.4	\$ 246.5
(Deductions) or Additions to Reconcile to Adjusted Free Cash Flow:				
Additions of long-lived assets	(13.2)	(26.8)	(25.8)	(62.5)
Fee to terminate services agreement with the Sponsors (a)	—	—	—	16.0
Technology-related license expenses (j)	—	—	6.0	—
Adjusted Free Cash Flow	\$ 116.5	\$ 80.1	\$ 164.6	\$ 200.0

- (a) Represents a one-time payment (recorded in Other expense, net) to terminate the services agreement with affiliates of The Carlyle Group and Onex Corporation (the "Sponsors").
- (b) Represents fees and expenses (recorded in Other expense, net) related to the initial public offering in March 2012 and proposed secondary offering in April 2013.
- (c) Represents an impairment charge (recorded in Other expense, net) for investments in a co-development agreements to expand our position in transmission technologies.
- (d) Represents a charge (recorded in Selling, general and administrative expenses, and Engineering – research and development) related to an employee headcount reduction program in the second quarter of 2013.
- (e) Represents unrealized losses (recorded in Other expense, net) on the mark-to-market of our foreign currency and commodities derivative contracts.
- (f) Represents a loss (recorded in Other expense, net) realized on the redemptions and repayments of long-term debt.
- (g) Represents a charge (recorded in Selling, general and administrative expenses) during the second quarter of 2012 related to an increase in our liability associated with the Dual Power Inverter Module extended coverage program due to claims data and additional design issues identified during introduction of replacement units.
- (h) Represents a settlement charge (recorded in Other expense, net) related to the settlement of pension obligations for certain qualified hourly employees from our hourly defined benefit pension plan to General Motors' pension plan as part of the asset purchase agreement dated June 28, 2007.
- (i) Represents employee stock compensation expense (recorded in Cost of sales, Selling, general and administrative expenses, and Engineering – research and development) and service fees (recorded in Selling, general and administrative expenses) paid to the Sponsors.
- (j) Represents payments (recorded in Engineering – research and development) for licenses to expand our position in transmission technologies.

Q2 2013 Earnings Release

July 29, 2013

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



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

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

Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and Allison Transmission’s Annual Report on Form 10-K for year ended December 31, 2012.

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

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

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

- **Q2 2013 Performance**
- **Full Year 2013 Guidance Update**

Q2 2013 Performance Summary



(\$ in millions)	Q2 2013	Q2 2012	% Variance
Net Sales	\$512	\$559	(8.5%)
Gross Margin %	44.2%	45.0%	(80 bps)
Adjusted Net Income ⁽¹⁾	\$89	\$87	3.4%
Adjusted Free Cash Flow ⁽¹⁾	\$117	\$80	45.4%

Commentary

Net Sales: the decrease was principally driven by lower demand in the North America energy sector's hydraulic fracturing market, relative to the same period in 2012, previously considered reductions in U.S. defense spending and weakness in the Outside North America Off-Highway mining sector end market. Partially offsetting these declines were higher demand for North America hybrid-propulsion systems for transit buses principally driven by intra-year movement in the timing of orders and strength in the Outside North America Off-Highway energy sector end market. Net sales to the North America On-Highway end market were flat with the same period in 2012.

Gross Margin: the decrease was principally driven by decreased net sales, partially offset by favorable foreign exchange.

Adjusted Net Income: the increase was principally driven by reduced global commercial spending activities, decreased cash interest expense as a result of debt repayment and refinancing, premiums and expenses related to redemptions and repayments of long term debt in 2012, and a charge for the DPIM extended coverage program in 2012, partially offset by decreased net sales and higher employee stock compensation expense.

Adjusted Free Cash Flow: the increase was principally driven by increased net cash provided by operating activities and reduced capital expenditures. The decrease in capital expenditures was principally driven by the 2012 expansion of our India facility and lower 2013 product initiatives spending.

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

Q2 2013 Sales Performance



(\$ in millions)

End Markets	Q2 2013	Q2 2012	% Variance	Commentary
North America On-Hwy	\$216	\$217	(0%)	Flat with the same period in 2012 and up 15% sequentially driven by higher demand for Rugged Duty and Bus Series models
North America Hybrid-Propulsion Systems for Transit Bus	\$27	\$18	50%	Increased demand principally driven by intra-year movement in the timing of orders
North America Off-Hwy	\$8	\$44	(82%)	Decreased demand from the same period in 2012 driven by hydraulic fracturing applications, but for the first time in five quarters, essentially flat sequentially
Defense	\$58	\$80	(28%)	Continued reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts
Outside North America On-Hwy	\$75	\$78	(4%)	Weakness in China, principally driven by the timing of bus tenders, and commercial vehicle production schedule volatility in several other regional end markets, partially offset by improved demand conditions in Europe
Outside North America Off-Hwy	\$36	\$30	20%	Decreased mining sector demand
Service Parts, Support Equipment & Other	\$92	\$92	0%	Flat with the same period in 2012
Total	\$512	\$559	(8%)	

Q2 2013 Financial Performance



(\$ in millions, except share data)	Q2 2013	Q2 2012	\$ Var	% Var	Commentary
Net Sales	\$512.1	\$559.4	(\$47.3)	(8.5%)	Decrease was principally driven by lower demand in the North America energy sector's hydraulic fracturing market, previously considered reductions in U.S. defense spending and weakness in the Outside North America Off-Highway mining sector end market. Partially offsetting these declines were higher demand for North America hybrid-propulsion systems for transit buses and strength in the Outside North America Off-Highway energy sector end market.
Cost of Sales	\$286.0	\$307.5	\$21.5	7.0%	
Gross Profit	\$226.1	\$251.9	(\$25.8)	(10.2%)	Decreased net sales partially offset by favorable foreign exchange
Operating Expenses					
Selling, general and administrative expenses	\$85.6	\$109.1	\$23.5	21.5%	\$12 million of lower intangible asset amortization, a \$9 million charge for the Dual Power Inverter Module extended coverage program in 2012 and reduced global commercial spending
Engineering – research and development	\$22.8	\$23.2	\$0.4	1.7%	
Total operating expenses	\$108.4	\$132.3	\$23.9	18.1%	
Operating Income	\$117.7	\$119.6	(\$1.9)	(1.6%)	
Interest Expense, net	(\$33.3)	(\$34.1)	\$0.8	2.3%	
Other Expense, net	(\$2.6)	(\$22.8)	\$20.2	88.6%	Decrease principally driven by an \$8 million impairment of technology-related investments in 2012 and \$8 million of premiums and expenses in 2012 related to redemptions and repayments of long-term debt
Income Before Income Taxes	\$81.8	\$62.7	\$19.1	30.5%	
Income Tax (Expense) Benefit	(\$31.3)	\$350.1	(\$381.4)	(108.9%)	Release of domestic valuation allowance for deferred tax assets in 2012 resulting in an income tax benefit of \$385 million
Net Income	\$50.5	\$412.8	(\$362.3)	(87.8%)	
Diluted Earnings Per Share	\$0.26	\$2.21	(\$1.95)	(88.2%)	Q2 2013: 189.9M shares; Q2 2012: 186.4M shares
Adjusted EBITDA⁽¹⁾	\$171.6	\$190.7	(\$19.1)	(10.0%)	
Adjusted EBITDA excluding technology-related license expenses⁽¹⁾	\$171.6	\$190.7	(\$19.1)	(10.0%)	
Adjusted Net Income⁽¹⁾	\$89.4	\$86.5	\$2.9	3.4%	

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

Q2 2013 Cash Flow Performance



(\$ in millions)	Q2 2013	Q2 2012	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$130	\$107	\$23	21.3%	Principally driven by Q2 2012 accounts payable reduction and lower cash interest expense partially offset by reduced Adjusted EBITDA
CapEx	\$13	\$27	(\$14)	(50.7%)	Principally driven by the 2012 expansion of our India facility and lower 2013 product initiatives spending
Adjusted Free Cash Flow ⁽¹⁾	\$117	\$80	\$37	45.4%	Driven by increased net cash provided by operating activities and reduced capital expenditures

(\$ in millions)	Q2 2013	Q2 2012	\$ Variance	% Variance	Commentary
Operating Working Capital ⁽²⁾ Percentage of LTM Sales	10.4%	9.6%	N/A	80 bps	Principally driven by LTM Sales reduction and 2013 sales forecast partially offset by Q2 2012 accounts payable reduction
Cash Paid for Interest	\$50	\$53	(\$3)	(5.9%)	Principally driven by debt repayment and refinancing
Cash Paid for Income Taxes	\$2	\$4	(\$2)	(48.6%)	Decreased taxable income

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

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

Full Year 2013 Guidance Update



	Guidance	Commentary
Net Sales (\$ in millions)	\$1,920 to \$1,960	We expect net sales to stabilize on a year-over-year basis, an improvement relative to the sales decline in the first half of the year. We believe there are improving trends in the second half of 2013 which we expect to be driven by strong year-over-year growth in global On-Highway end markets and abating year-over-year declines in the North America Off-Highway end market.
Adjusted EBITDA excluding technology-related license expenses (\$ in millions)	\$630 to \$660	
Adjusted EBITDA Margin excluding technology-related license expenses	32 to 34 percent	
Adjusted Free Cash Flow (\$ in millions)	\$325 to \$375	\$1.71 to \$1.97 per diluted share
CapEx (\$ in millions) Maintenance New Product Programs	\$60 to \$65 \$15 to \$20	Subject to timely completion of development and sourcing milestones
Cash Income Taxes (\$ in millions)	\$10 to \$15	U.S. income tax shield and net operating loss utilization

APPENDIX

Non-GAAP Financial Information

Adjusted Net Income and Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,				Three months ended June 30,		Last twelve months ended June 30,
	2009	2010	2011	2012	2012	2013	2013
Net (loss) income	(\$323.9)	\$29.6	\$103.0	\$514.2	\$412.8	\$50.5	\$121.4
plus:							
Interest expense, net	234.2	277.5	217.3	151.2	34.1	33.3	143.6
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(52.7)	(49.6)	(158.1)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	(350.1)	31.3	75.1
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(3.5)	(1.8)	(7.3)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—
Technology-related investment expenses	—	—	—	14.4	8.0	—	8.9
Public offering expenses	—	—	—	6.1	0.4	0.6	0.6
Trade name impairment	190.0	—	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	37.5	25.1	130.0
Adjusted net income	\$49.6	\$273.7	\$305.4	\$375.9	\$86.5	\$89.4	\$314.2
Cash interest expense	242.5	239.1	208.6	167.3	52.7	49.6	158.1
Cash income taxes	5.5	2.2	5.8	10.7	3.5	1.8	7.3
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	25.3	25.0	102.3
(Gain)/loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	22.1	7.6	—	1.0
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	9.4	—	—
UAW Local 933 signing bonus	—	—	—	8.8	—	—	8.8
Benefit plan re-measurement	—	—	—	2.3	2.3	—	—
Unrealized (gain) loss on hedge contracts	(5.8)	0.1	6.8	(0.9)	1.7	0.5	0.5
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—	—
Restructuring charges	47.9	—	—	—	—	1.0	1.0
Reduction of supply contract liability	—	(3.4)	—	—	—	—	—
Other, net ⁽¹⁾	53.2	10.9	8.6	7.0	1.7	4.3	10.5
Adjusted EBITDA	\$501.3	\$617.0	\$711.9	\$705.1	\$190.7	\$171.6	\$603.7
Adjusted EBITDA excluding technology-related license expenses	\$501.3	\$617.0	\$711.9	\$717.1	\$190.7	\$171.6	\$621.7
Net Sales	\$1,766.7	\$1,926.3	\$2,162.8	\$2,141.8	\$559.4	\$512.1	\$1,950.0
Adjusted EBITDA margin	28.4%	32.0%	32.9%	32.9%	34.1%	33.5%	31.0%
Adjusted EBITDA margin excl technology-related license expenses	28.4%	32.0%	32.9%	33.5%	34.1%	33.5%	31.9%

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

Adjusted Free Cash Flow reconciliation

\$ in millions, Unaudited	For the year ended December 31,				Three months ended June 30,		Last twelve months ended June 30,
	2009	2010	2011	2012	2012	2013	2013
Net Cash Provided by Operating Activities	\$168.7	\$388.9	\$469.2	\$497.5	\$106.9	\$129.7	\$435.4
(Deductions) or Additions:							
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(26.8)	(13.2)	(87.2)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—
Technology-related license expenses	—	—	—	12.0	—	—	18.0
2009 Non-Recurring Activity ⁽¹⁾	61.0	—	—	—	—	—	—
Adjusted Free Cash Flow	\$141.5	\$315.1	\$372.3	\$401.6	\$80.1	\$116.5	\$366.2
Net Sales	\$1,766.7	\$1,926.3	\$2,162.8	\$2,141.8	\$559.4	\$512.1	\$1,950.0
Adjusted Free Cash Flow (% to Net Sales)	8.0%	16.4%	17.2%	18.8%	14.3%	22.7%	18.8%

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