Allison Transmission Holdings Inc
Form 10-Q
July 28, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

Commission File No. 001-35456

ALLISON TRANSMISSION HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-0414014**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
One Allison Way Indianapolis, IN	**46222**
(Address of Principal Executive Offices)	**(Zip Code)**

(317) 242-5000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

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

As of July 14, 2015, there were 176,422,605 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Allison Transmission Holdings, Inc.

Condensed Consolidated Balance Sheets

(unaudited, dollars in millions, except share data)

	June 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 216.8**	$ 263.0
Accounts receivable net of allowance for doubtful accounts of $0.6 and $0.3, respectively	**228.1**	207.4
Inventories	**155.3**	143.5
Deferred income taxes, net	**97.8**	119.7
Other current assets	**27.5**	24.4
Total Current Assets	**725.5**	758.0
Property, plant and equipment, net	**485.4**	514.6
Intangible assets, net	**1,463.4**	1,512.0
Goodwill	**1,941.0**	1,941.0
Deferred income taxes, net	**1.3**	1.3
Other non-current assets	**66.4**	77.3
TOTAL ASSETS	**$ 4,683.0**	$ 4,804.2
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 142.4**	$ 151.7
Product warranty liability	**21.0**	24.0
Current portion of long-term debt	**22.6**	17.9
Deferred revenue	**21.9**	20.6
Other current liabilities	**113.9**	131.7
Total Current Liabilities	**321.8**	345.9
Product warranty liability	**52.7**	59.6

Deferred revenue	**52.8**		48.7
Long-term debt	**2,392.0**		2,502.6
Deferred income taxes	**273.0**		238.2
Other non-current liabilities	**225.1**		211.4
TOTAL LIABILITIES	**3,317.4**		3,406.4
Commitments and contingencies (see NOTE O)			
STOCKHOLDERS EQUITY			
Common stock, $0.01 par value, 1,880,000,000 shares authorized, 177,091,171 shares issued and outstanding and 179,488,247 shares issued and outstanding, respectively	**1.8**		1.8
Non-voting common stock, $0.01 par value, 20,000,000 shares authorized, none issued and outstanding			
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding			
Paid in capital	**1,685.0**		1,651.0
Accumulated deficit	**(270.7)**		(215.5)
Accumulated other comprehensive loss, net of tax	**(50.5)**		(39.5)
TOTAL STOCKHOLDERS EQUITY	**1,365.6**		1,397.8
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	**$ 4,683.0**	$	4,804.2

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

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Allison Transmission Holdings, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited, dollars in millions, except per share data)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net sales	**$ 511.0**	$ 536.1	**$ 1,014.6**	$ 1,029.7
Cost of sales	**274.7**	297.6	**539.1**	568.7
Gross profit	**236.3**	238.5	**475.5**	461.0
Selling, general and administrative expenses	**75.6**	85.1	**149.0**	168.3
Engineering research and development	**23.2**	21.2	**45.4**	45.7
Loss associated with impairment of long-lived assets			**1.3**	
Operating income	**137.5**	132.2	**279.8**	247.0
Interest income	**0.2**	0.2	**0.4**	0.4
Interest expense	**(23.3)**	(36.8)	**(60.4)**	(72.1)
Premiums and expenses on tender offer and redemption of long-term debt	**(25.1)**		**(25.1)**	
Other (expense) income, net	**(2.2)**	(0.9)	**0.6**	(1.3)
Income before income taxes	**87.1**	94.7	**195.3**	174.0
Income tax expense	**(32.7)**	(37.5)	**(72.5)**	(64.7)
Net income	**$ 54.4**	$ 57.2	**$ 122.8**	$ 109.3
Basic earnings per share attributable to common stockholders	**$ 0.30**	$ 0.32	**$ 0.68**	$ 0.61
Diluted earnings per share attributable to common stockholders	**$ 0.30**	$ 0.31	**$ 0.68**	$ 0.59
Dividends declared per common share	**$ 0.15**	$ 0.12	**$ 0.30**	$ 0.24
Comprehensive income, net of tax	**$ 55.3**	$ 57.0	**$ 111.8**	$ 111.2

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

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Allison Transmission Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited, dollars in millions)

	Six months ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 122.8**	$ 109.3
Add (deduct) items included in net income not using (providing) cash:		
Deferred income taxes	**67.3**	61.7
Amortization of intangible assets	**48.6**	49.4
Depreciation of property, plant and equipment	**43.4**	47.4
Premiums and expenses on tender offer and redemption of long-term debt	**25.1**	
Excess tax benefit from stock-based compensation	**(8.0)**	(7.8)
Unrealized loss (gain) on derivatives	**6.8**	(8.0)
Stock-based compensation	**4.7**	7.3
Amortization of deferred financing costs	**3.8**	4.3
Loss associated with impairment of long-lived assets	**1.3**	
Other	**(0.3)**	0.2
Changes in assets and liabilities:		
Accounts receivable	**(23.2)**	(52.0)
Inventories	**(14.2)**	(8.8)
Accounts payable	**(9.1)**	24.0
Other assets and liabilities	**(35.3)**	15.0
Net cash provided by operating activities	**233.7**	242.0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions of long-lived assets	**(14.9)**	(22.7)
Investments in technology-related initiatives		(3.8)
Collateral for interest rate derivatives		1.7
Proceeds from disposal of assets	**0.2**	0.1
Net cash used for investing activities	**(14.7)**	(24.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases and redemption of long-term debt	**(491.0)**	
Issuance of long-term debt	**470.0**	
Repurchases of common stock	**(114.7)**	(249.8)
Payments on long-term debt	**(104.6)**	(8.9)
Dividend payments	**(53.9)**	(43.4)
Proceeds from exercise of stock options	**21.8**	22.4
Excess tax benefit from stock-based compensation	**8.0**	7.8
Debt financing fees	**(7.5)**	(1.0)
Taxes paid related to net share settlement of equity awards	**(0.5)**	(0.2)

Net cash used for financing activities		**(272.4)**		(273.1)
Effect of exchange rate changes on cash		**7.2**		(2.2)
Net decrease in cash and cash equivalents		**(46.2)**		(58.0)
Cash and cash equivalents at beginning of period		**263.0**		184.7
Cash and cash equivalents at end of period	**$**	**216.8**	$	126.7
Supplemental disclosures:				
Interest paid	**$**	**53.6**	$	68.6
Income taxes paid	**$**	**3.9**	$	3.1

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

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Allison Transmission Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(UNAUDITED)

NOTE A. OVERVIEW

Overview

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

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

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements as of and for the three and six months ended June 30, 2015 and 2014 have been prepared in accordance with accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the condensed consolidated financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. The information herein reflects all normal recurring material adjustments, which are, in the opinion of management, necessary for the fair statements of the results for the periods presented. The condensed consolidated financial statements herein consist of all wholly-owned domestic and foreign subsidiaries with all significant intercompany transactions eliminated.

These condensed consolidated financial statements present the financial position, results of comprehensive income and cash flows of the Company. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission (SEC) on February 20, 2015. Certain immaterial reclassifications have been made in the condensed consolidated financial statements of prior periods to conform to the current period presentation. These reclassifications have no impact on previously reported net income, total stockholders equity or cash flows. The interim period financial results for the three and six month periods presented are not necessarily indicative of results to be expected for any other interim period or for the entire year.

Use of Estimates

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

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Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued authoritative accounting guidance to simplify the presentation of the debt issuance costs. The guidance requires that the debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected. The guidance is effective for public entities for interim and annual reporting periods beginning after December 15, 2015, but can be early-adopted. Management is assessing the potential impact of the adoption of this guidance on the Company s consolidated financial statements.

In August 2014, the FASB issued authoritative accounting guidance on the disclosure of uncertainties about an entity s ability to continue as a going concern. The guidance requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that financial statements are available to be issued when applicable) and to provide related footnote disclosures. The guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2016, but can be early-adopted. While the adoption of this guidance is not expected to have an effect on the Company s consolidated financial statements, it could affect the disclosure applied under these circumstances in the future.

In May 2014, the FASB issued authoritative accounting guidance on a company s accounting for revenue from contracts with customers. The guidance applies to all companies that enter into contracts with customers to transfer goods, services or nonfinancial assets. The guidance requires these companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires improved disclosures regarding the nature, timing, amount and uncertainty of revenue that is recognized. As originally proposed, the guidance was effective prospectively for interim and annual reporting periods beginning after December 15, 2016. On April 1, 2015, the FASB proposed a one-year deferral of the effective date. Under the proposal, the guidance would be effective on a retrospective or modified retrospective basis for public entities for interim and annual reporting periods beginning after December 15, 2017. The proposal also would permit both public and nonpublic entities to adopt the guidance as early as December 15, 2016. Early adoption prior to that date would not be permitted. In July 2015, the FASB proposed deferral was approved. Management is assessing the potential impact of the adoption of this guidance on the Company s consolidated financial statements.

NOTE C. INVENTORIES

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

	June 30, 2015	December 31, 2014
Purchased parts and raw materials	**$ 74.0**	$ 72.3
Work in progress	**6.0**	6.1
Service parts	**48.0**	46.5
Finished goods	**27.3**	18.6
Total inventories	**$ 155.3**	$ 143.5

Inventory components shipped to third parties, primarily cores, parts to re-manufacturers, and parts to contract manufacturers, which the Company has an obligation to buy back, are included in purchased parts and raw materials, with an offsetting liability in Other current liabilities. See NOTE K, Other Current Liabilities for more information.

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NOTE D. GOODWILL AND OTHER INTANGIBLE ASSETS

As of June 30, 2015 and December 31, 2014, the carrying amount of the Company s Goodwill was $1,941.0 million. The following presents a summary of other intangible assets (dollars in millions):

	June 30, 2015			December 31, 2014		
	Intangible assets, gross	**Accumulated amortization**	**Intangible assets, net**	**Intangible assets, gross**	**Accumulated amortization**	**Intangible assets, net**
Other intangible assets:						
Trade name	**$ 870.0**	**$**	**$ 870.0**	$ 870.0	$	$ 870.0
Customer relationships defense	**62.3**	**(29.6)**	**32.7**	62.3	(27.9)	34.4
Customer relationships commercial	**831.8**	**(452.1)**	**379.7**	831.8	(426.9)	404.9
Proprietary technology	**476.3**	**(301.0)**	**175.3**	476.3	(282.0)	194.3
Non-compete agreement	**17.3**	**(13.7)**	**3.6**	17.3	(12.8)	4.5
Patented technology defense	**28.2**	**(26.2)**	**2.0**	28.2	(24.5)	3.7
Tooling rights	**4.5**	**(4.4)**	**0.1**	4.5	(4.3)	0.2
Patented technology commercial	**260.6**	**(260.6)**		260.6	(260.6)	
Total	**$ 2,551.0**	**$ (1,087.6)**	**$ 1,463.4**	$ 2,551.0	$ (1,039.0)	$ 1,512.0

As of June 30, 2015 and December 31, 2014, the net carrying value of our Goodwill and other intangibles was $3,404.4 million and $3,453.0 million, respectively.

Amortization expense related to other intangible assets for the next five years and thereafter is expected to be (dollars in millions):

	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Amortization expense	$ 92.4	$ 89.7	$ 87.2	$ 85.7	$ 49.9	$ 140.6

NOTE E. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes financial instruments that are valued using quoted prices in markets that are not active and those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management s best estimate of fair value. At each balance sheet date, the Company performs an analysis of all instruments subject to authoritative accounting guidance and includes, in Level 3, all of those whose fair value is based on significant unobservable inputs. As of June 30, 2015 and December 31, 2014, the Company did not have any Level 3 financial assets or liabilities.

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The Company s assets and liabilities that are measured at fair value include cash and cash equivalents, available-for-sale securities, derivative instruments, assets held in a rabbi trust and a deferred compensation obligation. The Company s cash equivalents consist of short-term U.S. government backed securities. The Company s available-for-sale securities consist of ordinary shares of Torotrak plc (Torotrak) associated with a license and exclusivity agreement with Torotrak. Torotrak s listed shares are traded on the London Stock Exchange under the ticker symbol TRK. The Company s derivative instruments consist of interest rate swaps, foreign currency forward contracts and commodity swaps. The Company s assets held in the rabbi trust consist principally of publicly available mutual funds and target date retirement funds. The Company s deferred compensation obligation is directly related to the fair value of assets held in the rabbi trust.

The Company s valuation techniques used to calculate the fair value of cash and cash equivalents, available-for-sale securities, assets held in the rabbi trust and the deferred compensation obligation represent a market approach in active markets for identical assets that qualify as Level 1 in the fair value hierarchy. The Company s valuation techniques used to calculate the fair value of derivative instruments represent a market approach with observable inputs that qualify as Level 2 in the fair value hierarchy.

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

For the fair value measurement of foreign currency derivatives, the Company uses forward foreign exchange rates received from the issuing financial institution. These rates are periodically corroborated by comparing to third-party broker quotes. The foreign currency hedges are accounted for within the authoritative accounting guidance set forth on accounting for derivative instruments and hedging activities and have been recorded at fair value based upon quoted market rates. The fair values are included in Other current and non-current assets and liabilities in the Condensed Consolidated Balance Sheets. The Company generally does not elect to apply hedge accounting for these foreign currency contracts, and as a result, unrealized fair value adjustments and realized gains and losses are recorded in Other expense, net in the Condensed Consolidated Statements of Comprehensive Income during the period of change.

For the fair value measurement of commodity derivatives, the Company uses forward prices received from the issuing financial institution. These rates are periodically corroborated by comparing to third-party broker quotes. The commodity derivatives are accounted for within the authoritative accounting guidance set forth on accounting for derivative instruments and hedging activities and have been recorded at fair value based upon quoted market rates. The fair values are included in Other current and non-current assets and liabilities in the Condensed Consolidated Balance Sheets. The Company has either not qualified for or not elected hedge accounting treatment for these commodity contracts, and as a result, unrealized fair value adjustments and realized gains and losses are recorded in Other expense, net in the Condensed Consolidated Statements of Comprehensive Income.

For the fair value measurement of interest rate derivatives, the Company uses valuations from the issuing financial institution. The Company corroborates the valuation through the use of third-party valuation services using a standard replacement valuation model. The floating-to-fixed interest rate swaps are based on the London Interbank Offered Rate (LIBOR) which is observable at commonly quoted intervals. The fair values are included in other current and non-current assets and liabilities in the Condensed Consolidated Balance Sheets. The Company has not qualified for hedge accounting treatment for the interest rate swaps and, as a result, fair value adjustments are charged directly to Interest expense in the Condensed Consolidated Statements of Comprehensive Income.

The following table summarizes the fair value of the Company s financial assets and (liabilities) as of June 30, 2015 and December 31, 2014 (dollars in millions):

	Fair Value Measurements Using					
	Quoted Prices in Active Markets for Identical Assets (Level 1)		**Significant Other Observable Inputs (Level 2)**		**TOTAL**	
	June 30, 2015	**December 31, 2014**	**June 30, 2015**	**December 31, 2014**	**June 30, 2015**	**December 31, 2014**
Cash equivalents	**$ 101.0**	$ 55.0	**$**	$	**$ 101.0**	$ 55.0
Available-for-sale securities	**3.9**	8.6			**3.9**	8.6
Rabbi trust assets	**4.6**	2.9			**4.6**	2.9
Deferred compensation obligation	**(4.6)**	(2.9)			**(4.6)**	(2.9)
Derivative assets			**0.0**	0.0	**0.0**	0.0
Derivative liabilities			**(22.6)**	(15.4)	**(22.6)**	(15.4)
Total	**$ 104.9**	$ 63.6	**$ (22.6)**	$ (15.4)	**$ 82.3**	$ 48.2

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NOTE F. DEBT

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

	June 30, 2015	December 31, 2014
Long-term debt:		
Senior Secured Credit Facility Term B-2 Loan, variable, due 2017	**$ 189.0**	$ 283.6
Senior Secured Credit Facility Term B-3 Loan, variable, due 2019	**2,225.6**	1,765.6
Senior Notes, fixed 7.125%, due 2019		471.3
Total long-term debt	**$ 2,414.6**	$ 2,520.5
Less: current maturities of long-term debt	**22.6**	17.9
Total long-term debt less current portion	**$ 2,392.0**	$ 2,502.6

As of June 30, 2015, the Company had $189.0 million of indebtedness associated with Allison Transmission, Inc. s (ATI), the Company s wholly-owned subsidiary, Senior Secured Credit Facility Term B-2 Loan due 2017 (Term B-2 Loan) and $2,225.6 million of indebtedness associated with ATI s Senior Secured Credit Facility Term B-3 Loan due 2019 (Term B-3 Loan) (together the Term B-2 Loan, Term B-3 Loan and revolving credit facility defined as the Senior Secured Credit Facility).

The fair value of the Company s long-term debt obligations as of June 30, 2015 was $2,417.6 million. The fair value is based on quoted Level 2 market prices of the Company s debt as of June 30, 2015. It is not expected that the Company would be able to repurchase a significant amount of its debt at these levels. The difference between the fair value and carrying value of the long-term debt is driven primarily by trends in the financial markets.

On March 18, 2015, ATI commenced a cash tender offer to purchase its outstanding 7.125% senior cash pay notes due May 2019 (7.125% Senior Notes). In connection with the cash tender offer, ATI solicited consents to enter into a supplemental indenture to eliminate substantially all of the restrictive covenants, certain events of default and related provisions contained in the indenture dated as of May 6, 2011 (the Indenture) governing the 7.125% Senior Notes. On March 31, 2015, ATI received valid consents from holders with an aggregate principal amount of $420.9 million of the 7.125% Senior Notes. Accordingly, ATI entered into a first supplemental indenture to the Indenture contingent on the execution of an amendment with the term loan lenders under its Senior Secured Credit Facility.

On April 7, 2015, ATI entered into an amendment with the term loan lenders under its Senior Secured Credit Facility to add up to an additional $470.0 million of Term B-3 Loan commitments and incur term loans in an aggregate principal amount of $470.0 million. The amendment also, among other things, (i) permits prepayment, repurchase or redemption of Allison s 7.125% Senior Notes with the proceeds of the financing and (ii) resets the period for which a prepayment premium of 1.00% will apply in the event of a repricing transaction to the six-month anniversary of the closing date of the financing. With the exception of the items noted above, the terms (including maturity and pricing) of the financing are materially the same as the terms of the existing Term B-3 Loan outstanding. As a result of the newly structured Senior Secured Credit Facility, ATI recorded approximately $7.5 million as deferred financing fees in the Condensed Consolidated Balance Sheets. Immediately following the financing, ATI purchased $420.9 million of the tendered 7.125% Senior Notes using the proceeds from the financing in a cash payment equal to $1,042 per $1,000 aggregate principal amount of the 7.125% Senior Notes plus accrued and unpaid interest. Upon the payment, the supplemental indenture to the Indenture became operative. The purchase resulted in a loss (the premium between the purchase price of the notes and the face value of such notes) of $22.7 million including deferred financing fees written off.

In May 2015, ATI redeemed the remaining $50.4 million of its outstanding 7.125% Senior Notes, at the redemption price equal to 103.563% of the principal amount plus any accrued and unpaid interest, using the remaining proceeds from the financing and cash on hand, resulting in a loss (the premium between the purchase price of the notes and the face value of such notes) of $2.4 million including deferred financing fees written off.

The Senior Secured Credit Facility is collateralized by a lien on substantially all assets of the Company including all of ATI s capital stock and all of the capital stock or other equity interest held by the Company, ATI and each of the Company s existing and future U.S. subsidiary guarantors (subject to certain limitations for equity interests of foreign subsidiaries and other exceptions set forth in the terms of the Senior Secured Credit Facility). Interest on the Term B-2 Loan, as of June 30, 2015, is at the Company s option, either (a) 2.75% over the LIBOR or (b) 1.75% over the greater of the prime lending rate provided by the British Banking Association or the federal funds effective rate published by the Federal Reserve Bank of New York plus 0.50%. Interest on the Term B-3 Loan, as of June 30, 2015, is equal to the LIBOR (which may not be less than 1.00%) plus 2.50% based on the Company s total leverage ratio. As of June 30, 2015, these rates were approximately 2.94% and 3.50% on the Term B-2 Loan and Term B-3 Loan, respectively, and the weighted average rate on the Senior Secured Credit Facility was approximately 3.46%. The Senior Secured Credit Facility requires minimum quarterly principal payments on the Term B-2 Loan and Term B-3 Loan as well as prepayments from certain net cash proceeds of non-ordinary course asset sales and casualty and condemnation events and from a percentage of excess cash flow, if applicable. Due to voluntary prepayments, the Company has fulfilled all Term B-2 Loan required quarterly payments through its maturity date of 2017. For the three months and six months ended June 30, 2015, the Company made principal payments of $47.2 million and $94.6 million on the Term B-2 loan, respectively, resulting in a total loss of $0.2 million associated with the write off of related deferred debt issuance costs. The minimum required quarterly principal payment on the Term B-3 Loan is $5.6 million and remains through its maturity date of 2019. As of June 30, 2015, there had been no payments required for certain net cash proceeds of non-ordinary course asset sales and casualty and condemnation events. The remaining principal balance on each loan is due upon maturity.

The Senior Secured Credit Facility also provides for a revolving credit facility of $465.0 million, net of an allowance for up to $75.0 million in outstanding letters of credit commitments. As of June 30, 2015, the Company had $455.8 million available under the revolving credit facility, net of $9.2 million in letters of credit. Revolving credit borrowings bear interest at a variable base rate plus an applicable margin based on the Company s total leverage ratio. As of June 30, 2015, this rate would have been approximately 1.63%. In addition, there is an annual commitment fee, based on the Company s total leverage ratio, which as of June 30, 2015, was equal to 0.25% of the average unused revolving credit borrowings available under the Senior Secured Credit Facility. Revolving credit borrowings are payable at the option of the Company throughout the term of the Senior Secured Credit Facility with the balance due in January 2019. The revolving portion of the Senior Secured Credit Facility requires the Company to maintain a specified maximum total senior secured leverage ratio of 5.50x when revolving loan commitments remain outstanding at the end of a fiscal quarter. In March 2014, however, the revolving lenders holding a majority of the revolving loan commitments permanently waived and agreed that no event of default would result from any non-compliance so long as there were no revolving loans outstanding as of the last day of any fiscal quarter. As of June 30, 2015, the Company had no revolving loans outstanding; however, the Company would have been in compliance with the maximum total senior secured leverage ratio, achieving a 2.88x ratio. Additionally, within the terms of the Senior Secured Credit Facility, a senior secured leverage ratio at or below 3.50x results in the elimination of excess cash flow payments on the Senior Secured Credit Facility for the applicable year. The Senior Secured Credit Facility also provides certain financial incentives based on our total leverage ratio. A total leverage ratio at or below 4.00x results in a 25 basis point reduction to the applicable margin on the revolving credit facility, and a total leverage ratio at or below 3.50x results in a 12.5 basis point reduction to the revolving credit facility commitment fee and an additional 25 basis point reduction to the applicable margin on the revolving credit facility. A total leverage ratio at or below 3.25x results in a 25 basis point reduction to the applicable margin on our Term B-3 Loan. These reductions would remain in effect as long as the Company achieves a total leverage ratio at or below the related threshold. As of June 30, 2015, the total leverage ratio was 2.88x.

In addition, the Senior Secured Credit Facility, among other things, includes customary restrictions (subject to certain exceptions) on the Company s ability to incur certain indebtedness, grant certain liens, make certain investments, declare or pay certain dividends or repurchase shares of the Company s common stock. As of June 30, 2015, the Company is in compliance with all covenants under the Senior Secured Credit Facility.

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NOTE G. DERIVATIVES

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

Interest Rate

The Company is subject to interest rate risk related to the Senior Secured Credit Facility and enters into interest rate swap contracts that are based on the LIBOR to manage a portion of this exposure. The Company has not elected hedge accounting treatment for these derivatives, and as a result, fair value adjustments are charged directly to Interest expense in the Condensed Consolidated Statements of Comprehensive Income. A summary of the Company s interest rate derivatives as of June 30, 2015 and December 31, 2014 follows (dollars in millions):

	June 30, 2015		December 31, 2014	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
3.44% Interest Rate Swap L, Aug 2016 Aug 2019*	**$ 75.0**	**$ (3.0)**	$ 75.0	$ (2.3)
3.43% Interest Rate Swap M, Aug 2016 Aug 2019*	**100.0**	**(3.9)**	100.0	(3.0)
3.37% Interest Rate Swap N, Aug 2016 Aug 2019*	**75.0**	**(2.8)**	75.0	(2.1)
3.19% Interest Rate Swap O, Aug 2016 Aug 2019*	**75.0**	**(2.5)**	75.0	(1.7)
3.08% Interest Rate Swap P, Aug 2016 Aug 2019*	**75.0**	**(2.2)**	75.0	(1.5)
2.99% Interest Rate Swap Q, Aug 2016 Aug 2019*	**50.0**	**(1.3)**	50.0	(0.9)
2.98% Interest Rate Swap R, Aug 2016 Aug 2019*	**50.0**	**(1.3)**	50.0	(0.9)
2.73% Interest Rate Swap S, Aug 2016 Aug 2019*	**50.0**	**(1.0)**	50.0	(0.5)
2.74% Interest Rate Swap T, Aug 2016 Aug 2019*	**75.0**	**(1.4)**	75.0	(0.8)
2.66% Interest Rate Swap U, Aug 2016 Aug 2019*	**50.0**	**(0.9)**	50.0	(0.4)
2.60% Interest Rate Swap V, Aug 2016 Aug 2019*	**50.0**	**(0.8)**	50.0	(0.3)
2.40% Interest Rate Swap W, Aug 2016 Aug 2019*	**25.0**	**(0.2)**	25.0	0.0
2.25% Interest Rate Swap X, Aug 2016 Aug 2019*	**50.0**	**(0.3)**		
* includes LIBOR floor of 1.00%	**$ 800.0**	**$ (21.6)**	$ 750.0	$ (14.4)

Currency Exchange

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

The following table summarizes the outstanding foreign currency forward contracts as of June 30, 2015 and December 31, 2014 (amounts in millions):

	June 30, 2015		December 31, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Japanese Yen (JPY)	**¥600.0**	**$ 0.0**	¥ 300.0	$ (0.3)
		$ 0.0		$ (0.3)

Commodity

The Company s business is subject to commodity price risk, primarily with component suppliers. As a result, the Company enters into various commodity swap contracts that qualify as derivatives under the authoritative accounting guidance to manage certain of these exposures. Swap contracts are used to hedge forecasted transactions either of the commodity or of components containing the commodity. The Company has not qualified for hedge accounting treatment for these commodity contracts, and as a result, unrealized fair value adjustments and realized gains and losses associated with these contracts were charged directly to Other expense, net in the Condensed Consolidated Statements of Comprehensive Income during the period of change.

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The following table summarizes the outstanding commodity swaps as of June 30, 2015 and December 31, 2014 (dollars in millions):

	June 30, 2015			December 31, 2014		
	Notional Amount	**Quantity**	**Fair Value**	**Notional Amount**	**Quantity**	**Fair Value**
Aluminum	**$ 8.7**	**4,650 metric tons**	**$ (1.0)**	$ 11.3	6,200 metric tons	$ (0.7)
Natural Gas	**N/A**	**N/A**		$ 0.2	60,000 MMBtu	0.0
			$ (1.0)			$ (0.7)

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

	June 30, 2015		December 31, 2014	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives not designated as hedging instruments				
Foreign currency contracts	**Other current assets**	**$ 0.0**	Other current liabilities	$ (0.3)
Commodity contracts	**Other current and non-current liabilities**	**(1.0)**	Other current and non-current liabilities	(0.7)
Interest rate contracts	**Other non-current liabilities**	**(21.6)**	Other non-current liabilities	(14.4)
Total derivatives not designated as hedging instruments		**$ (22.6)**		$ (15.4)

The fair values of the derivatives are recorded between Other current and non-current assets and Other current and non-current liabilities as appropriate in the Condensed Consolidated Balance Sheets. As of June 30, 2015, the amounts recorded to Other current and non-current liabilities for commodity contracts were ($0.6) million and ($0.4) million, respectively.

As of December 31, 2014, the amounts recorded to Other current and non-current liabilities for commodity contracts were ($0.6) million and ($0.1) million, respectively.

The impact on the Company s Condensed Consolidated Statements of Comprehensive Income related to foreign currency and commodity contracts can be found in NOTE J, and the following tabular disclosure describes the location and impact on the Company s results of operations related to unrealized gain (loss) on interest rate derivatives (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Location of impact on results of operations				
Interest Expense	**$ 1.1**	$ 2.6	**$ (7.2)**	$ 6.5

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NOTE H. PRODUCT WARRANTY LIABILITIES

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

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Beginning balance	**$ 77.1**	$ 90.4	**$ 83.6**	$ 90.5
Payments	**(7.9)**	(10.7)	**(16.3)**	(19.1)
Increase in liability (warranty issued during period)	**5.3**	6.5	**11.2**	12.8
Net adjustments to liability	**(0.9)**	0.3	**(5.0)**	2.2
Accretion (for Predecessor liabilities)	**0.1**	0.2	**0.2**	0.3
Ending balance	**$ 73.7**	$ 86.7	**$ 73.7**	$ 86.7

As of June 30, 2015, the current and non-current product warranty liabilities were $21.0 million and $52.7 million, respectively. As of June 30, 2014, the current and non-current product warranty liabilities were $23.2 million and $63.5 million, respectively.

NOTE I. DEFERRED REVENUE

As of June 30, 2015, the current and non-current deferred revenue for Extended Transmission Coverage (ETC) were $21.9 million and $52.8 million, respectively. As of June 30, 2014, the current and non-current deferred revenue for ETC were $19.7 million and $47.1 million, respectively.

Deferred revenue for ETC activity (dollars in millions):

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Beginning balance	**$ 72.2**	$ 63.8	**$ 69.0**	$ 63.6
Increases	**8.3**	8.3	**16.5**	13.8
Revenue earned	**(5.8)**	(5.3)	**(10.8)**	(10.6)
Ending balance	**$ 74.7**	$ 66.8	**$ 74.7**	$ 66.8

Deferred revenue recorded in current liabilities related to unearned net sales for defense contracts as of June 30, 2015 and 2014 was approximately $0.0 million and $2.3 million, respectively.

NOTE J. OTHER (EXPENSE) INCOME, NET

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

	Three months ended June 30,	Six months ended June 30,

	2015	2014	2015	2014
(Loss) gain on intercompany foreign exchange	**$ (1.3)**	$ (1.8)	**$ 0.9**	$ (1.8)
Realized loss on derivative contracts (see NOTE G)	**(0.4)**	(0.4)	**(0.7)**	(1.0)
(Loss) gain on foreign exchange	**(0.2)**		**0.9**	(0.5)
Unrealized (loss) gain on derivative contracts (see NOTE G)	**(0.1)**	1.3	**0.2**	1.5
Loss on repayments of long-term debt	**(0.0)**		**(0.2)**	
Grant program income		0.8		1.4
Public offering fees and expenses		(0.8)		(1.1)
Other	**(0.2)**		**(0.5)**	0.2
Total	**$ (2.2)**	$ (0.9)	**$ 0.6**	$ (1.3)

For the three months and six months ended June 30, 2015, the Company recorded a loss of ($1.3) million and a gain of $0.9 million resulting from intercompany financing transactions related to investments in plant assets for the Company s India facility.

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NOTE K. OTHER CURRENT LIABILITIES

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

	As of June 30, 2015	As of December 31, 2014
Payroll and related costs	**$ 30.9**	$ 50.9
Sales allowances	**28.1**	25.5
Defense price reduction reserve	**11.2**	16.2
Vendor buyback obligation	**11.1**	13.2
Taxes payable	**10.1**	8.5
Stock repurchases obligation	**9.4**	
Accrued interest payable	**0.8**	5.2
Derivative liabilities	**0.2**	0.8
Other accruals	**12.1**	11.4
Total	**$ 113.9**	$ 131.7

NOTE L. EMPLOYEE BENEFIT PLANS

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

	Pension Plans Three months ended June 30,		Post-retirement Benefits Three months ended June 30,	
	2015	2014	2015	2014
Net periodic benefit cost:				
Service cost	**$ 3.6**	$ 3.3	**$ 0.6**	$ 0.6
Interest cost	**1.3**	1.2	**1.3**	1.4
Expected return on assets	**(2.1)**	(1.9)		
Prior service cost	**0.0**	0.0	**(0.9)**	(0.9)
Gain	**(0.0)**			(0.2)
Net periodic benefit cost	**$ 2.8**	$ 2.6	**$ 1.0**	$ 0.9

	Pension Plans Six months ended June 30,		Post-retirement Benefits Six months ended June 30,	
	2015	2014	2015	2014
Net periodic benefit cost:				
Service cost	**$ 7.2**	$ 6.6	**$ 1.2**	$ 1.1
Interest cost	**2.6**	2.5	**2.7**	2.9
Expected return on assets	**(4.2)**	(3.8)		

Prior service cost	**0.0**	0.0	**(1.8)**	(1.8)
Gain	**(0.0)**			(0.4)
Net periodic benefit cost	**$ 5.6**	$ 5.3	**$ 2.1**	$ 1.8

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NOTE M. INCOME TAXES

For the three and six months ended June 30, 2015, the Company recorded total tax expense of $32.7 million and $72.5 million, respectively. The effective tax rate for the three and six months ended June 30, 2015 was 37.5% and 37.1%, respectively. For the three and six months ended June 30, 2014, the Company recorded total tax expense of $37.5 million and $64.7 million, respectively. The effective tax rate for the three and six months ended June 30, 2014 was 39.6% and 37.2%, respectively.

The need to establish a valuation allowance against the deferred tax assets is assessed periodically based on a more-likely-than-not realization threshold, in accordance with authoritative accounting guidance. Appropriate consideration is given to all positive and negative evidence related to that realization. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry forward periods, experience with tax attributes expiring unused, and tax planning alternatives. The weight given to these considerations depends upon the degree to which they can be objectively verified.

The Company has determined, based on the evaluation of both objective and subjective evidence available, that a domestic valuation allowance is not necessary and that it is more likely than not that the deferred tax assets are fully realizable. The Company has reached a sustained period of profitability and believes its objectively measured positive evidence outweighs the negative evidence. The Company continues to provide for a valuation allowance on certain of its foreign deferred tax assets.

In accordance with the FASB s authoritative guidance on accounting for uncertainty in income taxes, the Company has recorded a liability of $2.3 million for unrecognized tax benefits related to a 2010 Research & Development Credit as of June 30, 2015 and December 31, 2014. The accounting guidance prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For the year ended December 31, 2014, the return will remain subject to examination by the various taxing authorities for the duration of the applicable statute of limitations (generally three years from the later of the date of filing or the due date of the return).

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NOTE N. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables reconcile changes in Accumulated other comprehensive loss (AOCL) by component (net of tax, dollars in millions):

	Three months ended			
	Available-for-sale securities	Defined benefit pension items	Foreign currency items	Total
AOCL as of March 31, 2014	$ 1.2	$ (8.6)	$ (11.5)	$ (18.9)
Other comprehensive (loss) income before reclassifications	(0.9)		0.9	
Amounts reclassified from AOCL		(0.9)		(0.9)
Income tax	0.3	0.4		0.7
Net current period other comprehensive (loss) income	$ (0.6)	$ (0.5)	$ 0.9	$ (0.2)
AOCL as of June 30, 2014	$ 0.6	$ (9.1)	$ (10.6)	$ (19.1)
AOCL as of March 31, 2015	$ (3.3)	$ (17.6)	$ (30.5)	$ (51.4)
Other comprehensive (loss) income before reclassifications	**(0.9)**		**1.9**	**1.0**
Amounts reclassified from AOCL		**(0.9)**		**(0.9)**
Income tax	**0.4**	**0.4**		**0.8**
Net current period other comprehensive (loss) income	**$ (0.5)**	**$ (0.5)**	**$ 1.9**	**$ 0.9**
AOCL as of June 30, 2015	**$ (3.8)**	**$ (18.1)**	**$ (28.6)**	**$ (50.5)**

	Six months ended			
	Available-for-sale securities	Defined benefit pension items	Foreign currency items	Total
AOCL as of December 31, 2013	$ 1.1	$ (7.9)	$ (14.2)	$ (21.0)
Other comprehensive (loss) income before reclassifications	(0.7)		3.6	2.9
Amounts reclassified from AOCL		(2.0)		(2.0)
Income tax	0.2	0.8		1.0
Net current period other comprehensive (loss) income	$ (0.5)	$ (1.2)	$ 3.6	$ 1.9

AOCL as of June 30, 2014	$ 0.6	$ (9.1)	$ (10.6)	$ (19.1)
AOCL as of December 31, 2014	$ (0.9)	$ (17.0)	$ (21.6)	$ (39.5)
Other comprehensive loss before reclassifications	**(4.7)**		**(7.0)**	**(11.7)**
Amounts reclassified from AOCL		**(1.8)**		**(1.8)**
Income tax	**1.8**	**0.7**		**2.5**
Net current period other comprehensive loss	**$ (2.9)**	**$ (1.1)**	**$ (7.0)**	**$ (11.0)**
AOCL as of June 30, 2015	**$ (3.8)**	**$ (18.1)**	**$ (28.6)**	**$ (50.5)**

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The following tables show the location in the Condensed Consolidated Statements of Comprehensive Income affected by reclassifications from AOCL (dollars in millions):

AOCL Components	Amounts reclassified from AOCL Three months ended June 30, 2015	Three months ended June 30, 2014	Affected line item in the Condensed Consolidated Statements of Comprehensive Income
Amortization of defined benefit pension items:			
Prior service cost	**$ 0.8**	$ 0.8	Cost of sales
	0.1	0.0	Selling, general and administrative
	0.0	0.0	Engineering research and development
Actuarial loss		0.1	Cost of sales
		0.0	Selling, general and administrative
		0.0	Engineering research and development
Total reclassifications, before tax	**$ 0.9**	$ 0.9	Income before income taxes
Income tax expense	**(0.4)**	(0.4)	Tax expense
Total reclassifications	**$ 0.5**	$ 0.5	Net of tax

AOCL Components	Amounts reclassified from AOCL Six months ended June 30, 2015	Six months ended June 30, 2014	Affected line item in the Condensed Consolidated Statements of Comprehensive Income
Amortization of defined benefit pension items:			
Prior service cost	**$ 1.6**	$ 1.6	Cost of sales
	0.2	0.1	Selling, general and administrative
	0.0	0.0	Engineering research and development
Actuarial loss		0.3	Cost of sales
		0.0	Selling, general and administrative
		0.0	Engineering research and development
Total reclassifications, before tax	**$ 1.8**	$ 2.0	Income before income taxes
Income tax expense	**(0.7)**	(0.8)	Tax expense
Total reclassifications	**$ 1.1**	$ 1.2	Net of tax

Prior service cost and actuarial loss are included in the computation of the Company s net periodic benefit cost. Please see NOTE L for additional details.

NOTE O. COMMITMENTS AND CONTINGENCIES

Claims, Disputes, and Litigation

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

NOTE P. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In May 2015, the Company redeemed $100,000 and $450,000 of 7.125% Senior Notes held by Lawrence E. Dewey, our Chairman, President and Chief Executive Officer, and David S. Graziosi, our Executive Vice President, Chief Financial Officer and Treasurer, respectively, at the specified redemption price in the governing indenture equal to 103.563% of the principal amount plus any accrued and unpaid interest. Refer to NOTE F for additional details.

NOTE Q. EARNINGS PER SHARE

The Company presents both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the reporting period that are calculated using the treasury stock method for stock-based awards. The treasury stock method assumes that the Company uses the proceeds from the exercise of awards to repurchase common stock at the average market price during the period. The assumed proceeds under the treasury stock method include the purchase price that the grantee will pay in the future, compensation cost for future service that the Company has not yet recognized and any tax benefits that would be credited to additional paid-in-capital when the award generates a tax deduction. If there would be a shortfall resulting in a charge to additional paid-in-capital, such an amount would be a reduction of the proceeds to the extent of the gains. The diluted weighted-average common shares outstanding exclude the anti-dilutive effect of certain stock options since such options had an exercise price in excess of the monthly average market value of our common stock. For both the three months and six months ended June 30, 2015, 0.2 million of outstanding stock options were not included in the diluted EPS computation because they were anti-dilutive.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income	**$ 54.4**	$ 57.2	**$ 122.8**	$ 109.3
Weighted average shares of common stock outstanding	**178.5**	178.8	**179.3**	180.5
Dilutive effect stock-based awards	**1.1**	2.8	**1.8**	3.2
Diluted weighted average shares of common stock outstanding	**179.6**	181.6	**181.1**	183.7
Basic earnings per share attributable to common stockholders	**$ 0.30**	$ 0.32	**$ 0.68**	$ 0.61
Diluted earnings per share attributable to common stockholders	**$ 0.30**	$ 0.31	**$ 0.68**	$ 0.59

NOTE R. COMMON STOCK

The Company s current stock repurchase program was announced on October 30, 2014. The Board authorized management to repurchase up to $500.0 million of its common stock on the open market or through privately negotiated transactions through December 31, 2016. The timing and amount of stock repurchases are subject to market conditions and corporate needs. This stock repurchase program may be extended, modified, suspended or discontinued at any time at the Company s discretion. During the three months and six months ended June 30, 2015, the Company repurchased approximately $85.2 million and $124.1 million, respectively, of its common stock under the repurchase program. As a result of timing between the repurchase transactions and the settlement of the repurchases, $79.3 million was settled in cash during the second quarter of 2015. The remaining $9.4 million, or 317,900 shares, was recorded to Other current liabilities in the Condensed Consolidated Balance Sheets for June 30, 2015 and settled the following month.

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

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

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

Overview

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

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

Trends Impacting Our Business

We expect our full year 2015 net sales to decrease year-over-year principally due to a continued recovery in the North America On-Highway end market being more than offset by the elevated level of uncertainty and dearth of near-term visibility in the global Off-Highway and Service Parts, Support Equipment and Other end markets, previously considered reductions in U.S. defense spending, continued weakness in the Outside North America On-Highway end market and lower demand for North America Hybrid-Propulsion Systems for Transit Bus due to engine emissions improvements and non-hybrid alternatives. We also expect third quarter net sales to be lower than the same period in 2014. The anticipated year-over-year decrease in third quarter net sales is expected to occur due to higher demand in the North America On-Highway end market being more than offset by lower demand in other end markets.

Second Quarter Net Sales by End Market (in millions)

End Market	Q2 2015 Net Sales	Q2 2014 Net Sales	% Variance
North America On-Highway	**$ 277**	$ 243	14%
North America Hybrid-Propulsion Systems for Transit Bus	**20**	28	(29%)
North America Off-Highway	**10**	23	(57%)
Defense	**29**	49	(41%)
Outside North America On-Highway	**73**	62	18%
Outside North America Off-Highway	**8**	24	(67%)
Service Parts, Support Equipment and Other	**94**	107	(12%)
Total Net Sales	**$ 511**	$ 536	(5%)

North America On-Highway end market net sales were up 14% for the second quarter 2015 compared to the second quarter 2014, principally driven by higher demand for Rugged Duty Series and Highway Series models.

North America Hybrid-Propulsion Systems for Transit Bus end market net sales were down 29% for the second quarter 2015 compared to the second quarter 2014, principally driven by lower demand due to engine emissions improvements and non-hybrid alternatives that generally require a fully-automatic transmission (e.g. xNG).

North America Off-Highway end market net sales were down 57% for the second quarter 2015 compared to the second quarter of 2014, principally driven by lower demand from hydraulic fracturing applications.

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Defense end market net sales were down 41% for the second quarter 2015 compared to the second quarter 2014, principally driven by the recognition of previously deferred revenue in 2014 totaling $15.8 million commensurate with the shipment of certain tracked transmissions at the request of the U.S. government and 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 up 18% for the second quarter 2015 compared to the second quarter 2014, principally driven by higher demand in Europe, Japan and India.

Outside North America Off-Highway end market net sales were down 67% for the second quarter 2015 compared to the second quarter 2014, principally driven by lower demand in the energy and mining sectors.

Service parts, support equipment and other end market net sales were down 12% for the second quarter 2015 compared to the second quarter 2014, principally driven by lower demand for North America service parts.

Key Components of our Results of Operations

Net sales

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

Cost of sales

Our primary components of cost of sales are purchased parts, the overhead expense related to our manufacturing operations and direct labor associated with the manufacture and assembly of transmissions and parts. For the six months ended June 30, 2015, direct material costs were approximately 68%, overhead costs were approximately 25%, and direct labor costs were approximately 7% of total cost of sales. We are subject to changes in our cost of sales caused by movements in underlying commodity prices. We seek to hedge against this risk by using commodity swap contracts and long-term supply agreements (LTSAs). See Part I, Item 3 Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk included below.

Selling, general and administrative expenses

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

Engineering research and development

We incur costs in connection with research and development programs that are expected to contribute to future earnings. Such costs are expensed as incurred.

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Non-GAAP Financial Measures

We use Adjusted net income to measure our overall profitability because we believe it better reflects our cash flow generation by capturing the actual cash interest paid and cash taxes paid rather than our interest expense and tax expense as calculated under accounting principles generally accepted in the United States of America (GAAP) and excludes the impact of the non-cash annual amortization of certain intangible assets and other certain non-recurring items. We use Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses and Adjusted free cash flow to evaluate and control our cash operating costs and to measure our operating profitability. We believe the presentation of Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses and Adjusted free cash flow enhances our investors overall understanding of the financial performance and cash flow of our business.

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

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

	For the three months ended June 30,		**For the six months ended June 30,**	
(unaudited, in millions)	**2015**	**2014**	**2015**	**2014**
Net income	**$ 54.4**	$ 57.2	**$ 122.8**	$ 109.3
plus:				
Interest expense, net	**23.1**	36.6	**60.0**	71.7
Cash interest expense	**(35.1)**	(39.2)	**(53.6)**	(68.6)
Income tax expense	**32.7**	37.5	**72.5**	64.7
Cash income taxes	**(1.4)**	(1.0)	**(3.9)**	(3.1)
Amortization of intangible assets	**24.3**	24.7	**48.6**	49.4
Loss associated with impairment of long-lived assets (a)			**1.3**	
Public offering expenses (b)		0.8		1.1
Adjusted net income	**$ 98.0**	$ 116.6	**$ 247.7**	$ 224.5
Cash interest expense	**35.1**	39.2	**53.6**	68.6
Cash income taxes	**1.4**	1.0	**3.9**	3.1
Depreciation of property, plant and equipment	**22.0**	24.1	**43.4**	47.4

Premiums and expenses on tender offer and redemption of long-term debt (c)	**25.1**		**25.1**	
Unrealized loss (gain) on foreign exchange (d)	**1.1**	1.7	**(1.2)**	1.4
Unrealized loss on commodity hedge contracts (e)	**0.2**	(1.2)	**0.0**	(1.1)
Dual power inverter module units extended coverage (f)			**(1.8)**	
Restructuring charge (g)		0.7		0.7
Loss on repayments of long-term debt (h)	**0.0**		**0.2**	
Other (i)	**2.6**	4.0	**4.7**	7.3
Adjusted EBITDA	**$ 185.5**	$ 186.1	**$ 375.6**	$ 351.9
Adjusted EBITDA excluding technology-related license expenses (j)	**$ 185.5**	$ 186.1	**$ 375.6**	$ 355.2
Net sales	**$ 511.0**	$ 536.1	**$ 1,014.6**	$ 1,029.7
Adjusted EBITDA margin	**36.3%**	34.7%	**37.0%**	34.2%
Adjusted EBITDA margin excluding technology-related licenses expenses (j)	**36.3%**	34.7%	**37.0%**	34.5%
Net cash provided by operating activities	**$ 153.6**	$ 143.4	**$ 233.7**	$ 242.0
(Deductions) or additions to reconcile to Adjusted free cash flow:				
Additions of long-lived assets	**(13.6)**	(11.6)	**(14.9)**	(22.7)
Excess tax benefit from stock-based compensation (k)	**0.2**	2.8	**8.0**	7.8
Technology-related license expenses (j)				3.3
Adjusted free cash flow	**$ 140.2**	$ 134.6	**$ 226.8**	$ 230.4

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(a) Represents a charge associated with the impairment of long-lived assets related to the production of the H3000 and H4000 hybrid-propulsion systems.

(b) Represents fees and expenses (recorded in Other (expense) income, net) related to our secondary offerings in June 2014, April 2014 and February 2014.

(c) Represents premiums and expenses related to the tender offer and redemption of Allison Transmission, Inc. s, (ATI), our wholly owned subsidiary, 7.125% senior cash pay notes due May 2019 (7.125% Senior Notes).

(d) Represents losses (gains) (recorded in Other (expense) income, net) on the mark-to-market of our foreign currency hedge contracts and on intercompany financing transactions related to our India facility.

(e) Represents (gains) losses (recorded in Other (expense) income, net) on the mark-to-market of our commodity hedge contracts.

(f) Represents an adjustment (recorded in Selling, general and administrative expenses) 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.

(g) Represents a charge (recorded in Selling, general and administrative, and Engineering research and development) related to employee headcount reductions in the second quarter of 2014.

(h) Represents losses (recorded in Other (expense) income, net) realized on the repayments of ATI s long-term debt.

(i) Represents employee stock compensation expense (recorded in Cost of sales, Selling, general and administrative expenses, and Engineering research and development).

(j) Represents payments (recorded in Engineering research and development) for licenses to expand our position in transmission technologies.

(k) Represents the amount of tax benefit (recorded in Income tax expense) related to stock-based compensation adjusted from cash flows from operating activities to cash flows from financing activities.

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Results of Operations

Comparison of three months ended June 30, 2015 and 2014

The following table sets forth certain financial information for the three months ended June 30, 2015 and 2014. The following table and discussion should be read in conjunction with the information contained in our condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

	Three months ended June 30,			
(unaudited, dollars in millions)	**2015**	**% of net sales**	**2014**	**% of net sales**
Net sales	**$ 511.0**		$ 536.1	
Cost of sales	**274.7**	**54%**	297.6	56%
Gross profit	**236.3**	**46**	238.5	44
Operating expenses:				
Selling, general and administrative expenses	**75.6**	**15**	85.1	16
Engineering research and development	**23.2**	**4**	21.2	4
Total operating expenses	**98.8**	**19**	106.3	20
Operating income	**137.5**	**27**	132.2	24
Other expense, net:				
Interest expense, net	**(23.1)**	**(5)**	(36.6)	(7)
Premiums and expenses on tender offer and redemption of long-term debt	**(25.1)**	**(5)**		
Other expense, net	**(2.2)**	**(0)**	(0.9)	(0)
Total other expense, net	**(50.4)**	**(10)**	(37.5)	(7)
Income before income taxes	**87.1**	**17**	94.7	17
Income tax expense	**(32.7)**	**(6)**	(37.5)	(7)
Net income	**$ 54.4**	**11%**	$ 57.2	10%

Net sales

Net sales for the quarter ended June 30, 2015 were $511.0 million compared to $536.1 million for the quarter ended June 30, 2014, a decrease of 5%. The decrease was principally driven by a $20.0 million, or 41%, decrease in net sales of defense products driven by the recognition of $15.8 million of previously deferred revenue in 2014 related to shipment of certain tracked transmissions at the request of the U.S. government and lower U.S. defense spending, a $16.0 million, or 67%, decrease in net sales of Outside North America off-highway products driven by lower demand from the energy and mining sectors, a $13.0 million, or 57%, decrease in net sales of North American off-highway products driven by lower demand from hydraulic fracturing applications, a $13.0 million, or 12%, decrease in net sales of parts and other products driven by lower demand for North America service parts, a $8.0 million, or 29%, decrease in net sales of North America hybrid-propulsion systems for transit buses driven by lower demand due to engine emissions improvements and non-hybrid alternatives that generally require a fully-automatic transmission (e.g. xNG), partially offset by a $34.0 million, or 14%, increase in net sales of North America on-highway commercial products driven by higher demand from Rugged Duty Series and Highway Series models and an $11.0 million, or 18%, increase in net sales of Outside North America on-highway products driven by higher demand in Europe, Japan and India. See Trends Impacting Our Business above for additional information on net sales by end markets.

Cost of sales

Cost of sales for the quarter ended June 30, 2015 was $274.7 million compared to $297.6 million for the quarter ended June 30, 2014, a decrease of 8%. The decrease was principally driven by approximately $11.0 million of decreased direct material costs commensurate with decreased sales, $5.0 million of favorable direct material costs, $2.4 million of lower incentive compensation and lower manufacturing cost commensurate with decreased sales and consistent with historical trends and management s expectations given the respective change in sales volume.

Gross profit

Gross profit for the quarter ended June 30, 2015 was $236.3 million compared to $238.5 million for the quarter ended June 30, 2014, a decrease of 1%. The decrease was principally driven by $14.0 million related to decreased sales volume, partially offset by $6.0 million of price increases on certain products, $5.0 million of favorable material costs and $2.4 million of lower incentive

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compensation expense. Gross profit as a percent of net sales increased 2%, principally driven by price increases on certain products and favorable material costs.

Selling, general and administrative expenses

Selling, general and administrative expenses for the quarter ended June 30, 2015 were $75.6 million compared to $85.1 million for the quarter ended June 30, 2014, a decrease of 11%. The decrease was principally driven by $5.2 million of favorable product warranty adjustments, $2.4 million of lower incentive compensation expense, $1.2 million of lower stock-based compensation expense and reduced global commercial spending activities.

Engineering research and development

Engineering expenses for the quarter ended June 30, 2015 were $23.2 million compared to $21.2 million for the quarter ended June 30, 2014, an increase of 9%. The increase was principally driven by increased product initiatives spending, partially offset by $1.0 million of lower incentive compensation expense.

Interest expense, net

Interest expense, net for the quarter ended June 30, 2015 was $23.1 million compared to $36.6 million for the quarter ended June 30, 2014, a decrease of 37%. The decrease was principally driven by $8.0 million of lower interest expense as a result of the maturity of $950.0 million of interest rate derivatives, $7.5 million of lower interest expense as a result of the repurchase and redemption of our 7.125% Senior Notes, $1.7 million of lower interest expense as a result of debt repayments, $0.6 million of lower amortization of deferred financing charges and $0.8 million of lower interest expense as a result of lower interest rates on ATI s Senior Secured Credit Facility Term B-2 Loan due 2017 (Term B-2 Loan) and ATI s Senior Secured Credit Facility Term B-3 Loan due 2019 (Term B-3 Loan) (together, the Term B-2 Loan, Term B-3 Loan and revolving credit facility defined as the Senior Secured Credit Facility), partially offset by $3.6 million of higher interest expense as a result of the addition of $470.0 million to our Term B-3 Loan in April 2015 and $1.5 million of unfavorable mark-to-market adjustments for our interest rate derivatives.

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

In April 2015, we completed a cash tender offer to purchase any and all of our outstanding 7.125% Senior Notes. The tender offer resulted in the repurchase of $420.9 million of our 7.125% Senior Notes in April 2015. In May 2015, we redeemed the remaining $50.4 million of our outstanding 7.125% Senior Notes, resulting in premiums and expenses totaling $25.1 million.

Other expense, net

Other expense, net for the quarter ended June 30, 2015 was $2.2 million compared to $0.9 million for the quarter ended June 30, 2014. The increase in expense was principally driven by $1.3 million of unrealized losses on derivative contracts, $0.8 million of lower Grant Program income, $0.2 million of unfavorable foreign exchange and $0.3 million of higher miscellaneous expense, partially offset by $0.8 million of lower public offering fees and expenses and $0.5 million of foreign exchange gain on intercompany financing.

Income tax expense

Income tax expense for the quarter ended June 30, 2015 was $32.7 million resulting in an effective tax rate of 37.5% versus an effective tax rate of 39.6% in the quarter ended June 30, 2014. The change in effective tax rate was principally driven by the change in discrete activity.

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Comparison of six months ended June 30, 2015 and 2014

The following table sets forth certain financial information for the six months ended June 30, 2015 and 2014. The following table and discussion should be read in conjunction with the information contained in our condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

	Six months ended June 30,			
(unaudited, dollars in millions)	**2015**	**% of net sales**	**2014**	**% of net sales**
Net sales	**$ 1,014.6**		$ 1,029.7	
Cost of sales	**539.1**	**53%**	568.7	55%
Gross profit	**475.5**	**47**	461.0	45
Operating expenses:				
Selling, general and administrative expenses	**149.0**	**15**	168.3	16
Engineering research and development	**45.4**	**5**	45.7	4
Loss associated with impairment of long-lived assets	**1.3**	**0**		
Total operating expenses	**195.7**	**20**	214.0	21
Operating income	**279.8**	**27**	247.0	24
Other expense, net:				
Interest expense, net	**(60.0)**	**(6)**	(71.7)	(7)
Premiums and expenses on tender offer and redemption of long-term debt	**(25.1)**	**(2)**		
Other income (expense), net	**0.6**	**(0)**	(1.3)	(0)
Total other expense, net	**(84.5)**	**(8)**	(73.0)	(7)
Income before income taxes	**195.3**	**19**	174.0	17
Income tax expense	**(72.5)**	**(7)**	(64.7)	(6)
Net income	**$ 122.8**	**12%**	$ 109.3	11%

Net sales

Net sales for the six months ended June 30, 2015 were $1,014.6 million compared to $1,029.7 million for the six months ended June 30, 2014, a decrease of 1%. The decrease was principally driven by a $29.0 million, or 35%, decrease in net sales of defense products driven by the recognition of previously deferred revenue in 2014 related to shipment of certain tracked transmissions at the request of the U.S. government and lower U.S. defense spending, a $21.0 million, or 47%, decrease in net sales of Outside North America off-highway products driven by lower demand from the energy and mining sectors, a $21.0 million, or 10%, decrease in net sales of parts and other products driven by lower demand for North America service parts, a $14.0 million, or 27%, decrease in net sales of North America hybrid-propulsion systems for transit buses driven by lower demand due to engine emissions improvements, a $3.0 million, or 9%, decrease in net sales of North American off-highway products driven by lower demand from hydraulic fracturing applications, partially offset by a $69.0 million, or 14%, increase in net sales of North America on-highway commercial products driven by higher demand from Rugged Duty Series and Highway Series models and an $4.0 million, or 3%, increase in net sales of Outside North America on-highway products driven by higher demand in Europe, India and Japan partially offset by lower demand in China. See Trends Impacting Our Business above for additional information on net sales by end markets. See Trends Impacting Our Business above for additional information on net sales by end markets.

Cost of sales

Cost of sales for six months ended June 30, 2015 was $539.1 million compared to $568.7 million for six months ended June 30, 2014, a decrease of 5%. The decrease was principally driven by approximately $14.0 million of decreased direct material costs commensurate with decreased sales, $6.0 million of favorable direct material costs, $2.4 million of lower incentive compensation and lower manufacturing cost commensurate with decreased sales and consistent with historical trends and management s expectations given the respective change in sales volume.

Gross profit

Gross profit for the six months ended June 30, 2015 was $475.5 million compared to $461.0 million for the six months ended June 30, 2014, an increase of 3%. The increase was principally driven by $14.0 million of price increases on certain products, $6.0 million of favorable material costs and $2.4 million of lower incentive compensation expense, partially offset by $7.0 million related to decreased sales volume. Gross profit as a percent of net sales increased 2%, principally driven by price increases on certain products, favorable material costs and a favorable mix of product sales.

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended June 30, 2015 were $149.0 million compared to $168.3 million for the six months ended June 30, 2014, a decrease of 11%. The decrease was principally driven by $8.0 million of favorable product warranty expense adjustments in 2015, $3.6 million of lower incentive compensation expense, $2.2 million of lower stock-based compensation expense, $2.2 million of unfavorable product warranty expense adjustments in 2014, a $1.8 million favorable adjustment related to the DPIM extended coverage program and reduced global commercial spending activities.

Engineering research and development

Engineering expenses for the six months ended June 30, 2015 were $45.4 million compared to $45.7 million for the six months ended June 30, 2014, a decrease of 1%. The decrease was principally driven by $3.3 million of 2014 technology-related license expenses to expand our position in transmission technologies and $1.6 million of lower incentive compensation expense, partially offset by increased product initiatives spending.

Loss associated with impairment of long-lived assets

During the first quarter of 2015, we recorded an approximately $1.3 million impairment loss associated with the production of the H3000 and H4000 hybrid-propulsion systems. The loss included $1.0 million of accrued expenses and a $0.3 million impairment of long-lived assets.

Interest expense, net

Interest expense, net for the six months ended June 30, 2015 was $60.0 million compared to $71.7 million for the six months ended June 30, 2014, a decrease of 16%. The decrease was principally driven by $16.1 million of lower interest expense as a result of the maturity of $950.0 million of interest rate derivatives, $7.5 million of lower interest expense as a result of the repurchase and redemption of our 7.125% Senior Notes, $3.0 million of lower interest expense as a result of debt repayments, $1.6 million of lower interest expense as a result of lower interest rates on the Term B-2 Loan and Term B-3 Loan and $0.8 million of lower amortization of deferred financing charges, partially offset by $13.7 million of unfavorable mark-to-market adjustments for our interest rate derivatives and $3.6 million of higher interest expense as a result of the addition of $470.0 million to our Term B-3 Loan in April 2015.

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

In April 2015, we completed a cash tender offer to purchase any and all of our outstanding 7.125% Senior Notes. The tender offer resulted in the repurchase of $420.9 million of our 7.125% Senior Notes in April 2015. In May 2015, we redeemed the remaining $50.4 million of our outstanding 7.125% Senior Notes, resulting in premiums and expenses totaling $25.1 million.

Other income (expense), net

Other income (expense), net for the six months ended June 30, 2015 was $0.6 million compared to ($1.3) million for the six months ended June 30, 2014. The change in other income (expense), net was principally driven by $2.7 million of foreign exchange gain on intercompany financing, $1.4 million of favorable foreign exchange, $1.1 million of lower public offering fees and expenses, and $0.3 million of realized gains on derivative contracts, partially offset by $1.4 million of lower Grant Program income, $1.2 million of unrealized gains on derivative contracts, $0.2 million of losses on debt repayments and 0.8 million of higher miscellaneous expense.

Income tax expense

Income tax expense for the six months ended June 30, 2015 was $72.5 million resulting in an effective tax rate of 37.1% versus an effective tax rate of 37.2% for the six months ended June 30, 2014.

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Liquidity and Capital Resources

We generate cash primarily from our operating activities to fund our operating, investing and financing activities. Our principal uses of cash are operating expenses, capital expenditures, debt service, stock repurchases, dividends on common stock and working capital needs. We had total available cash and cash equivalents of $216.8 million and $263.0 million as of June 30, 2015 and December 31, 2014, respectively. Of the available cash and cash equivalents, approximately $115.8 million and $208.0 million were deposited in operating accounts while approximately $101.0 million and $55.0 million were invested in U.S. government backed securities as of June 30, 2015 and December 31, 2014, respectively.

As of June 30, 2015, the total of cash and cash equivalents held by foreign subsidiaries was $40.0 million, the majority of which was located in China, Europe and India. The geographic location of our cash aligns with our business growth strategy. We manage our worldwide cash requirements considering available funds among the subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. As a result, we do not anticipate any local liquidity restrictions to preclude us from funding our targeted expectations or operating needs with local resources.

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

Our liquidity requirements are significant, primarily due to our debt service requirements. In March 2015, we commenced a cash tender offer to purchase our outstanding 7.125% Senior Notes. The total principal amount accepted for purchase in April 2015 was $420.9 million. In April 2015, we also entered into an amendment with the term loan lenders under our Senior Secured Credit Facility to add an additional $470.0 million of term loans under the Term B-3 Loan. A portion of the proceeds from the additional term loans were used to purchase $420.9 million of the tendered 7.125% Senior Notes plus accrued and unpaid interest, applicable premiums and expenses. The purchase resulted in a loss (the premium between the purchase price of the notes and the face value of such notes) of $22.7 million including deferred financing fees written off. In May 2015, we redeemed the remaining $50.4 million of our outstanding 7.125% Senior Notes, at the redemption price equal to 103.563% of the principal amount plus any accrued and unpaid interest, using the remaining proceeds from the additional term loans and cash on hand, resulting in a loss (the premium between the purchase price of the notes and the face value of such notes) of $2.4 million including deferred financing fees written off.

As of June 30, 2015, we had $189.0 million of indebtedness associated with our Term B-2 Loan and $2,225.6 million of indebtedness associated with our Term B-3 Loan. Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond our control. We made principal payments of $52.9 million and $104.6 million on the Senior Secured Credit Facility for the three months and six months ended June 30, 2015, respectively.

The Senior Secured Credit Facility also provides for $465.0 million, net of an allowance for up to $75.0 million in outstanding letters of credit commitments. As of June 30, 2015, we had $455.8 million available under the revolving credit facility, net of $9.2 million in letters of credit. Additionally within the terms of the Senior Secured Credit Facility, a senior secured leverage ratio at or below 3.50x results in the elimination of excess cash flow payments on the Senior Secured Credit Facility for the applicable year. The Senior Secured Credit Facility provides certain financial incentives based on our total leverage ratio. A total leverage ratio at or below 4.00x results in a 25 basis point reduction to the applicable margin on our revolving credit facility, and a total leverage ratio at or below 3.50x results in a 12.5 basis point reduction to the revolving credit facility commitment fee and an additional 25 basis point reduction to the applicable margin on our revolving credit facility. A total leverage ratio at or below 3.25x results in a 25 basis point reduction to the applicable margin on our Term B-3 Loan. These reductions would remain in effect as long as we achieve a total leverage ratio at or below the related threshold. As of June 30, 2015, the total leverage ratio was 2.88x.

In addition to the maximum total senior secured leverage ratio for the revolving portion of the Senior Secured Credit Facility, the Senior Secured Credit Facility includes, among other things, customary restrictions (subject to certain exceptions) on our ability to incur certain indebtedness or liens, make certain investments, declare or pay certain dividends or repurchase shares of our common stock. As of June 30, 2015, we are in compliance with all covenants under the Senior Secured Credit Facility.

Our credit ratings are reviewed regularly by major debt ratings agencies such as Standard and Poor s, Moody s Investors Service and Fitch Ratings. In March 2015, Standard and Poor s raised the corporate rating to BB from BB- and assigned BB+ to the incremental Term B-3 loan. Moody s raised the corporate rating to Ba2 from Ba3 and assigned Ba2 to the incremental Term B-3 loan. Fitch ratings assigned BB to the incremental Term B-3 loan.

On October 30, 2014, our Board of Directors authorized us to repurchase up to $500.0 million of our common stock under a stock repurchase program. For the three and six months ended June 30, 2015, we repurchased approximately $85.2 and $124.1 million, respectively, of our common stock under the repurchase program. As a result of timing between the repurchase transactions and the settlement of the repurchases, $79.3 million and $114.7 million was settled in cash during the three months and six months

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ended June 30, 2015, respectively. The remaining $9.4 million, or 317,900 shares, was recorded to Other current liabilities in the Condensed Consolidated Balance Sheet for June 30, 2015 and settled the following month.

The following table shows our sources and uses of funds for the six months ended June 30, 2015 and 2014 (in millions):

	Six months ended June 30,	
Statement of Cash Flows Data	**2015**	**2014**
Cash flows from operating activities	**$ 233.7**	$ 242.0
Cash flows used for investing activities	**$ (14.7)**	$ (24.7)
Cash flows used for financing activities	**$ (272.4)**	$ (273.1)

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

Cash provided by operating activities

Operating activities for the six months ended June 30, 2015 generated $233.7 million of cash compared to $242.0 million for the six months ended June 30, 2014. The decrease was principally driven by decreased net sales, higher inventories and lower accounts payable commensurate with decreased net sales and lower other liabilities, net, partially offset by lower accounts receivable commensurate with decreased net sales, lower incentive compensation and lower interest expense as a result of debt repayments and refinancing.

Cash used for investing activities

Investing activities for the six months ended June 30, 2015 used $14.7 million of cash compared to $24.7 million for the six months ended June 30, 2014. The decrease was principally driven by a decrease of $7.8 million in capital expenditures and $3.8 million of 2014 investments in technology-related initiatives. The decrease in capital expenditures was principally driven by the timing of spending on productivity and replacement programs, and lower product initiatives spending.

Cash used for financing activities

Financing activities for the six months ended June 30, 2015 used $272.4 million of cash compared to $273.1 million of cash for the six months ended June 30, 2014. The decrease was principally driven by a decrease of $135.1 million of repurchases of our common stock, partially offset by $116.7 million of increased payments related to our long-term debt, $10.5 million of increased dividend payments and $6.5 million of increased debt financing fees associated with our amendment to our Senior Secured Credit Facility in the second quarter of 2015.

Contingencies

We are a party to various legal actions and administrative proceedings and subject to various claims arising in the ordinary course of business, including those relating to commercial transactions, product liability, safety, health, taxes, environmental and other matters. For more information, see NOTE O of our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Significant Accounting Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of some assets and liabilities and, in some instances, the reported amounts of net sales and expenses during the applicable reporting period. Differences between actual amounts and estimates are recorded in the period identified. Estimates can require a significant amount of judgment, and a different set of judgments could result in changes to our reported results. A summary of our critical accounting estimates is included below.

Revenue Recognition

Revenue recognition contains uncertainties because it requires management to make assumptions and to apply judgment to estimate the amount of sales incentives and provision for government price reductions. Distributor and customer sales incentives, consisting of allowances and other rebates, are estimated at the time of sale based upon history and experience and are recorded as a reduction to net sales. Incentive programs are generally product specific or region specific. Some factors used in estimating the cost of incentives include the number of transmissions that will be affected by the incentive program and the rate of acceptance of any incentive program. If the actual number of affected transmissions differs from this estimate, or if a different mix of incentives is actually paid, the impact on net sales would be recorded in the period that the change was identified. Assuming our current mix of sales incentives, a 10% change in sales incentives would have affected our earnings by approximately $6.0 million to $7.0 million per year for each of the prior three fiscal years.

Under terms of the U.S. government contracts, there are certain price reduction clauses and provisions for potential price reductions which are estimated at the time of sale based upon history and experience, and finalized after completion of U.S. government audits. Potential reductions may be attributed to a change in projected sales volumes or plant efficiencies which impact overall costs. Assuming our current level of government contracts, a 10% adjustment in our price reduction reserve, would have affected our earnings by approximately $5.0 million to $6.0 million per year for each of the prior three fiscal years.

Further information is provided in NOTE 2 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014.

Goodwill and Other Intangible Assets

Goodwill is tested for impairment at the reporting unit level, which is the same as our one operating and reportable segment. We have elected to perform our annual impairment test on October 31 of every year. A multi-step impairment test is performed on goodwill. In Step 0, we have the option to evaluate various qualitative factors to determine the likelihood of impairment. If we determine that the fair value is more likely than not less than the carrying value, then we are required to perform Step 1. If we do not elect to perform Step 0, we can voluntarily proceed directly to Step 1. In Step 1, we perform a quantitative analysis to compare the fair value of our reporting unit to our carrying value including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired, and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform Step 2 of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Our qualitative assessment contains uncertainties because it requires management to make assumptions and to apply judgment to assess business changes, economic outlook, financial trends and forecasts, growth rates, credit ratings, equity ratings, discount rates, industry data and other relevant qualitative factors.

Our quantitative analysis contains uncertainties because it is performed utilizing a discounted cash flow model which includes key assumptions, such as net sales growth derived from market information, industry reports, marketing programs and future new product introductions; operating margin improvements derived from cost reduction programs and fixed cost leverage driven by higher sales volumes; and a risk-adjusted discount rate.

Events or circumstances that could unfavorably impact the key assumptions include lower net sales driven by market conditions, our inability to execute on marketing programs and/or a delay in the introduction of new products, lower gross margins as a result of market conditions or failure to obtain forecasted cost reductions, or a higher discount rate as a result of market conditions.

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Goodwill impairment testing for 2014 was performed by assessing certain qualitative trends and factors. These trends and factors were compared to, and based on, the assumptions used in the quantitative assessment performed in 2013. Our 2013 impairment test indicated that our fair value of the reporting unit exceeded its carrying value by approximately 90%, indicating no impairment. After reviewing the various qualitative factors mentioned above, our 2014 annual goodwill impairment test indicated that the fair value of the reporting unit more likely than not exceeded its carrying value, indicating no impairment.

Other intangible assets have both indefinite and finite useful lives. Intangible assets with indefinite useful lives, such as our trade name, are not amortized but are tested annually for impairment. We have elected to perform our annual trade name impairment test on October 31 of every year and follow a similar multi-step impairment test that is performed on goodwill. Events or circumstances that could unfavorably impact the key assumptions include lower net sales driven by market conditions, our inability to execute on marketing programs and/or a delay in introduction of new products, and higher discount rate as a result of market conditions. While unpredictable and inherently uncertain, we believe the forecast estimates are reasonable and incorporate those assumptions that similar market participants would use in their estimates of fair value. Our 2013 trade name impairment test indicated that our fair value of the trade name exceeded the carrying value by approximately 8%, indicating no impairment. After reviewing the various qualitative factors mentioned above, our 2014 trade name impairment test indicated that the fair value of our trade name more likely than not exceeded the respective carrying value, indicating no impairment.

Intangible assets with finite lives are amortized over their estimated useful lives and reviewed for impairment when circumstances change that would create a triggering event. Assumptions and estimates about future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors, such as changes in our business strategy and internal forecasts. Although management believes the historical assumptions and estimates are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results.

Further information is provided in NOTE 2 and NOTE 5 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014.

Impairment of Long-Lived Assets

The carrying value of long-lived assets is evaluated whenever events or circumstances indicate that the carrying value of a long-lived asset may not be recoverable. Events or circumstances that would result in an impairment review primarily include a significant change in the use of an asset, or the planned sale or disposal of an asset. The asset would be considered impaired when there is no future use planned for the asset or the future net undiscounted cash flows generated by the asset or asset group are less than its carrying value. An impairment loss would be recognized based on the amount by which the carrying value exceeds fair value.

Assumptions and estimates used to determine cash flows in the evaluation of impairment and the fair values used to determine the impairment are subject to a degree of judgment and complexity. Any changes to the assumptions and estimates resulting from changes in actual results or market conditions from those anticipated may affect the carrying value of long-lived assets and could result in an impairment charge.

As a result of events and circumstances in the fourth quarter of 2014, we reviewed certain of our long-lived assets related to the production of the H3000 and H4000 hybrid-propulsion systems, resulting in a $15.4 million loss recorded for the year ended December 31, 2014. The loss, determined by using future net discounted cash flows, included approximately $1.7 million of accrued expenses related to the impairment of the long-lived assets.

Deteriorating market conditions for hybrid-propulsion vehicles, principally as a result of decreased fuel costs, alternative fuels and other technologies, significantly contributed to the future cash flows of the related assets being less than the carrying value of those assets.

Warranty

Provisions for estimated expenses related to product warranties are made at the time products are sold. Warranty claims arise when a transmission fails while in service during the relevant warranty period. The warranty reserve is adjusted in Selling, general and administrative expenses based on our current and historical warranty claims paid and associated repair costs. These estimates are established using historical information including the nature, frequency, and average cost of warranty claims and are adjusted as actual information becomes available. From time to time, we may initiate a specific field action program. As a result of the uncertainty surrounding the nature and frequency of specific field action programs, the liability for such programs is recorded when we commit to an action. We review and assess the liability for these programs on a quarterly basis. We also assess our ability to recover certain costs from our suppliers and record a receivable from the supplier when we believe a recovery is probable. Warranty costs may differ from those estimated if actual claim rates are higher or lower than our historical rates. Further information is provided in NOTE 9 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014 which contains a summary of the activity in our warranty liability account for 2014 and 2013 including adjustments to pre-existing warranties.

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Pension and Post-retirement Benefit Plans

Pension and other post-retirement benefits (OPEB) costs are based upon various actuarial assumptions and methodologies as prescribed by authoritative accounting guidance. These assumptions include discount rates, expected return on plan assets, health care cost trend rates, inflation, rate of compensation increases, population demographics, mortality rates and other factors. We review all actuarial assumptions on an annual basis.

A change in the discount rate can have a significant impact on determining our benefit obligations. Our current discount rate is determined by matching the plans projected cash flows to a yield curve based on long-term, fixed income debt instruments available as of the measurement date of December 31, 2014. The effect of a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2014 defined benefit pension plans obligation of approximately $20.0 million. Similarly, a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2014 OPEB obligation of approximately $23.7 million.

Further information is provided in NOTE 13 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014, which contains our review on various actuarial assumptions.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The future tax benefits associated with operating loss and tax credit carryforwards are recognized as deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Excluding net operating loss carryforwards, our expected tax payments would have increased by approximately $40.0 million for the year ended December 31, 2014. If we continue to generate taxable income, we expect to utilize the remaining U.S. federal net operating loss carryforwards as early as the first quarter of 2016.

The need to establish a valuation allowance against the deferred tax assets is assessed periodically based on a more-likely-than-not realization threshold, in accordance with the FASB s authoritative accounting guidance on income taxes. Appropriate consideration is given to all positive and negative evidence related to that realization. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, and experience with tax attributes expiring unused and tax planning alternatives. The weight given to these considerations depends upon the degree to which they can be objectively verified.

Further information on income taxes is provided in NOTE 15 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

Refer to NOTE B, Summary of Significant Accounting Policies in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Certain Relationships and Related Party Transactions

In May 2015, we redeemed $100,000 and $450,000 of 7.125% Senior Notes held by Lawrence E. Dewey, our Chairman, President and Chief Executive Officer, and David S. Graziosi, our Executive Vice President, Chief Financial Officer and Treasurer, respectively, at the specified redemption price in the governing indenture equal to 103.563% of the principal amount plus any accrued and unpaid interest. Refer to NOTE F in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional details.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. The words believe, expect, anticipate, intend, estimate and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although forward-looking statements reflect management s good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to: our participation in markets that are competitive; general economic and industry conditions; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; the failure of markets outside North America to increase adoption of fully-automatic transmissions; risks related to our substantial indebtedness; the discovery of defects in our products, resulting in delays in new model launches, recall campaigns and/or increased warranty costs and reduction in future sales or damage to our brand and reputation; the concentration of our net sales in our top five customers and the loss of any one of these; risks associated with our international operations; brand and reputational risks; our intention to pay dividends and repurchase shares of our common stock; and labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers.

Important factors that could cause actual results to differ materially from our expectations are disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on February 20, 2015. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements as well as other cautionary statements that are made from time to time in our public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

We are subject to interest rate market risk in connection with a portion of our long-term debt. Our principal interest rate exposure relates to outstanding amounts under our Senior Secured Credit Facility. Our Senior Secured Credit Facility provides for variable rate borrowings of up to $2,870.4 million including $455.8 million under our revolving credit facility, net of $9.2 million of letters of credit. A one-eighth percent change in assumed interest rates for the Senior Secured Credit Facility, if fully drawn, as of June 30, 2015 would have an impact of approximately $0.8 million on interest expense with the 1.00% LIBOR floor in effect on our Term B-3 Loan. Should LIBOR exceed 1.00%, a one-eighth percent change in assumed interest rates for the Senior Secured Credit Facility, if fully drawn, as of June 30, 2015 would have an impact of approximately $3.6 million on interest expense. As of June 30, 2015, we had no outstanding borrowings against the revolving credit facility.

From time to time, we enter into interest rate swap agreements to hedge our variable interest rate debt. Below is a list of our interest rate swaps as of June 30, 2015:

	Counterparty	Effective Date	Notional Amount (in millions)	LIBOR Fixed Rate
Interest Rate Swap L	Barclays	Aug 2016-Aug 2019	$ 75.0	3.44%*
Interest Rate Swap M	JP Morgan	Aug 2016-Aug 2019	$ 100.0	3.43%*
Interest Rate Swap N	Bank of America	Aug 2016-Aug 2019	$ 75.0	3.37%*
Interest Rate Swap O	Deutsche Bank	Aug 2016-Aug 2019	$ 75.0	3.19%*
Interest Rate Swap P	Barclays	Aug 2016-Aug 2019	$ 75.0	3.08%*
Interest Rate Swap Q	Barclays	Aug 2016-Aug 2019	$ 50.0	2.99%*
Interest Rate Swap R	Deutsche Bank	Aug 2016-Aug 2019	$ 50.0	2.98%*
Interest Rate Swap S	Deutsche Bank	Aug 2016-Aug 2019	$ 50.0	2.73%*
Interest Rate Swap T	Bank of America	Aug 2016-Aug 2019	$ 75.0	2.74%*
Interest Rate Swap U	Fifth Third Bank	Aug 2016-Aug 2019	$ 50.0	2.66%*
Interest Rate Swap V	Fifth Third Bank	Aug 2016-Aug 2019	$ 50.0	2.60%*
Interest Rate Swap W	Fifth Third Bank	Aug 2016-Aug 2019	$ 25.0	2.40%*
Interest Rate Swap X	Huntington Bank	Aug 2016-Aug 2019	$ 50.0	2.25%*

* includes LIBOR floor of 1.00%

We are exposed to increased interest expense if a counterparty defaults. Refer to NOTE F and NOTE G of the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Exchange Rate Risk

While our net sales and costs are denominated primarily in U.S. Dollars, net sales, costs, assets and liabilities are generated in other currencies including Japanese Yen, Euro, Indian Rupee, Brazilian Real, Chinese Yuan Renminbi, Canadian Dollar and Hungarian Forint. The expansion of our business outside North America may further increase the risk that cash flows resulting from these activities may be adversely affected by changes in currency exchange rates. As of June 30, 2015, we hold hedging contracts in the Japanese Yen, which are intended to hedge either known or forecasted cash flow payments denominated in the currency. We do not hold financial instruments for trading or speculative purposes.

Assuming current levels of foreign currency transactions, a 10% aggregate increase or decrease in the Japanese Yen, Euro, Indian Rupee, Chinese Yuan Renminbi and Canadian Dollar would correspondingly change our earnings by an estimated $3 million per year. This includes the partial offset of our hedging contracts described above. All other exposure to foreign currencies is considered immaterial.

Commodity Price Risk

We are subject to changes in our cost of sales caused by movements in underlying commodity prices. Approximately two-thirds of our cost of sales consists of purchased components with significant raw material content. A substantial portion of the purchased parts are made of aluminum and steel. The cost of aluminum parts include an adjustment factor on future purchases for fluctuations in aluminum prices based on accepted industry indices. In addition, a substantial amount of steel-based contracts also include an index-based component. As our costs change, we are able to pass through a portion of the changes in commodity prices to certain of our

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customers according to our LTSAs. We historically have not entered into long-term purchase contracts related to the purchase of aluminum and steel. We currently hold financial forward contracts that are intended to hedge forecasted aluminum purchases. Based on our forecasted demand for 2015 and 2016, as of June 30, 2015, the hedge contracts cover approximately 29% and 16% of our aluminum requirements, respectively. We do not hold financial instruments for trading or speculative purposes.

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

Many of our LTSAs have incorporated a cost-sharing arrangement related to potential future commodity price fluctuations. Our hedging policy is that we hedge our exposure and do not hedge any portion of the customers exposure. For purposes of the sensitivity analysis above, the impact of these cost sharing arrangements has not been included.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to various legal actions in the normal course of our business, including those related to commercial transactions, product liability, safety, health, taxes, environmental and other matters. See NOTE O in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no material changes from our risk factors as previously reported in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on February 20, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information related to our repurchases of our common stock on a monthly basis in the three months ended June 30, 2015:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans[1][2]
April 2015	742,300	$ 31.61	742,300	$ 437,622,107
May 2015	763,998	$ 31.14	763,998	$ 413,834,184
June 2015	1,257,100	$ 30.16	1,257,100	$ 375,926,074
Total	2,763,398	$ 30.82	2,763,398	

(1) These values reflect repurchases made under the stock repurchase program approved by our Board of Directors on October 30, 2014 authorizing $500 million of repurchases through December 31, 2016.

(2) Includes approximately $9 million, or 317,900 shares, of repurchases settled in July 2015.

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Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description
10.39	Amendment No.11 to the Credit Agreement, dated as of April 7, 2015, among Allison Transmission Holdings, Inc., Allison Transmission, Inc., as Borrower, the several banks and other financial institutions or entities from time to time parties thereto as Lenders, Citicorp North America, Inc., as Administrative Agent and the other agents and arrangers parties thereto (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed April 7, 2015)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

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

ALLISON TRANSMISSION HOLDINGS, INC.

Date: July 28, 2015	By: /s/ Lawrence E. Dewey Name: Lawrence E. Dewey Title: Chairman, President and Chief Executive Officer
Date: July 28, 2015	By: /s/ David S. Graziosi Name: David S. Graziosi Title: Executive Vice President, Chief Financial Officer and Treasurer (Principal Accounting Officer)

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