

VERTICALNET INC
Form S-3
July 14, 2006
Table of Contents

As filed with the Securities and Exchange Commission on July 14, 2006

Registration No. 333-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

VERTICALNET, INC.

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

7372
(Primary Standard Industrial
Classification Code No.)
400 Chester Field Parkway

23-2815834
(I.R.S. Employer
Identification No.)

Malvern, Pennsylvania 19355

(610) 240-0600

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Christopher G. Kuhn

Vice President, General Counsel, and Secretary

Edgar Filing: VERTICALNET INC - Form S-3

400 Chester Field Parkway

Malvern, Pennsylvania 19355

(610) 240-0600

(Name and address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after the registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. "

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. "

Edgar Filing: VERTICALNET INC - Form S-3

CALCULATION OF REGISTRATION FEE

	Amount To Be	Proposed Maximum Offering Price Per	Proposed Maximum Aggregate Offering	Amount Of
Title of Each Class of Securities To Be Registered	Registered	Share	Price	Registration Fee
Common Stock (1)	2,000,000	\$1.195(2)	\$2,390,000(2)	\$256

(1) Issuable as payment of principal and interest on senior secured convertible promissory notes or upon conversion of the convertible notes together with such indeterminate number of shares as may be issuable pursuant to anti-dilution provisions contained therein.

(2) Estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices reported on The Nasdaq Capital Market on July 12, 2006.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SECURITY HOLDERS MAY NOT SELL ANY OF THE SECURITIES DESCRIBED IN THIS PROSPECTUS UNTIL THE REGISTRATION STATEMENT THAT WE HAVE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION TO COVER THE SECURITIES IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 14, 2006

PRELIMINARY PROSPECTUS

2,000,000 Shares

VERTICALNET, INC.

Common Stock

This prospectus relates to the public offering, which is not being underwritten, of 2,000,000 shares of common stock, none of which is outstanding and all of which may be issued as payment of principal and interest on our \$6.6 million aggregate principal amount of senior secured convertible promissory notes due July 2007, or the convertible notes, held by selling shareholders or upon conversion of the convertible notes.

The selling shareholders may offer for resale through this prospectus the shares of common stock at various times at market prices prevailing at the time of sale or at privately negotiated prices. The selling shareholders may resell the common stock to or through underwriters, broker-dealers, or agents, who may receive compensation in the form of discounts, concessions, or commissions. We will not receive any of the proceeds from the resale of the common stock offered through this prospectus. We will bear all costs, expenses, and fees in connection with the registration of the shares. The selling shareholders will bear all commissions and discounts, if any, attributable to the sales of the shares.

On June 12, 2006, we effected a one-for-seven reverse stock split of our outstanding shares of common stock. As a result of the reverse stock split, shares of our common stock were quoted on The Nasdaq Capital Market under the symbol VERTD. On July 11, 2006, our common stock resumed trading on The Nasdaq Capital Market under the symbol VERT. The last reported sale price of our shares on July 12, 2006 was \$1.15 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK.

RISK FACTORS BEGIN ON PAGE 2.

Neither the Securities and Exchange Commission, or the SEC, nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2006

Table of Contents

TABLE OF CONTENTS

	Page
<u>SUMMARY</u>	1
<u>RISK FACTORS</u>	2
<u>FORWARD-LOOKING STATEMENTS</u>	11
<u>USE OF PROCEEDS</u>	11
<u>SELLING SHAREHOLDERS</u>	11
<u>MATERIAL CHANGES</u>	15
<u>PLAN OF DISTRIBUTION</u>	16
<u>LEGAL MATTERS</u>	17
<u>EXPERTS</u>	17
<u>ABOUT THIS PROSPECTUS</u>	17
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	18

Table of Contents

SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus or incorporated by reference in this prospectus and may not contain all the information that is important to you.

Our Company

We are a provider of On Demand Supply Management solutions to companies ranging in size from mid-market to Global 2000. We provide a full scope of Supply Management software, services, and domain expertise in areas that include: Program Management, Spend Analysis, eSourcing, Advanced Sourcing, Contract Management, and Supplier Performance Management. Our solutions help our customers save money on the goods and services they buy.

In addition to traditional software installation and Application Service Provider hosting, we offer the majority of our software products in an on-demand delivery model. On-demand delivery enables our customers to pay a single annual fee that includes software license, maintenance, application hosting, customer/community support, and training. We believe that our on-demand delivery model mitigates the software implementation costs for our customers, and reduces the obstacles to a successful supply management initiative.

In addition to implementation services, we also provide customers with supply management business process consulting, primarily in the areas of Spend Analysis and Advanced Sourcing, and offer custom software development for customers that desire to build additional supply management capabilities.

About Verticalnet, Inc.

Principal Executive Offices:
Verticalnet, Inc.

400 Chester Field Parkway

Malvern, Pennsylvania 19355

Phone: (610) 240-0600

Internet Address:

www.verticalnet.com (Information contained on our website is not a part of this prospectus)

Table of Contents

RISK FACTORS

We may require additional capital for our operations and obligations.

Although, based on our most recent projections, we believe our current level of liquid assets and the expected cash flows from contractual revenue arrangements will be sufficient to finance our capital requirements and anticipated operating losses through at least July 31, 2007, any projection of future long-term cash needs and cash flows are inherently subject to uncertainty. There is no assurance that our resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements during this period. We may need, or find it advantageous, to raise additional funds in the future to fund our growth, pursue sales and licensing opportunities, develop new or enhanced products and services, respond to competitive pressures, or acquire complementary businesses, technologies, or services.

If we are ultimately unable, for any reason, to receive cash payments expected from our customers, our business, financial condition, and results of operations may be materially and adversely affected.

Our indebtedness and debt service obligations may adversely affect our cash flow.

Should we be unable to satisfy our interest and principal payment obligations under our convertible notes through the use of shares of our common stock, we will be required to pay those obligations in cash. If we are unable to generate sufficient cash to meet these obligations as well as our obligations under our \$5.3 million senior subordinated discount note due November 18, 2007, we may have to restructure or limit our operations.

Our indebtedness could have significant additional negative consequences, including, but not limited to:

requiring the dedication of a substantial portion of our expected cash flow from operations to service the indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures;

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional financing;

limiting our flexibility to plan for, or react to, changes in our business and the industry in which we compete; and

placing us at a possible competitive disadvantage to competitors with less debt obligations and competitors that have better access to capital resources.

Our convertible notes and \$5.3 million senior subordinated discount note provide that upon the occurrence of various events of default and change of control transactions, the holders would be entitled to require us to prepay the notes for cash, which could leave us with little or no working capital for operations or capital expenditures.

Our convertible notes and \$5.3 million senior subordinated discount note allow the holders thereof to require us to prepay the notes upon the occurrence of various events of default, such as the termination of trading of our common stock on a qualified stock market or quotation system, or specified change of control transactions. In such a situation, we may be required to prepay all or part of the notes, including any accrued interest and penalties. Some of the events of default include matters over which we may have little or no control. If an event of default or a change of control occurs, we may be unable to prepay the full price in cash. Even if we were able to prepay the full amount in cash, any such prepayment could leave us with little or no working capital for our business. We have not established a sinking fund for payment of our obligations under our notes, nor do we anticipate doing so.

We may not generate an operating profit.

Edgar Filing: VERTICALNET INC - Form S-3

As of March 31, 2006, our accumulated deficit was approximately \$1.2 billion. We may never again generate an operating profit or, even if we do become profitable from operations at some point, we may be unable to sustain that profitability.

Table of Contents

We generate a significant portion of our revenues and accounts receivable from two customers.

For the three months ended March 31, 2006, two customers accounted for \$1.3 million or 33.4% of our total revenues. During the same period in 2005, these same two customers accounted for \$2.2 million or 40.9% of our total revenues. A termination or material reduction of our professional services by either of these customers could have a material adverse effect on our business, operating results, and financial condition.

As of March 31, 2006, these two customers accounted for \$1.3 million or 39.8% of our accounts receivable balance, all of which has been collected as of July 11, 2006. Although we have had a successful collection history with these customers, and do not foresee any collection issues, there can be no assurance that we will be able to collect outstanding balances and future invoices from them.

We have contractual obligations to provide consulting services over many periods.

We maintain a professional services and consulting workforce to fulfill contracts that we enter into with our customers that may extend over multiple periods. Our profitability is largely a function of performing against customer contractual arrangements within the estimated costs to perform these obligations. If we exceed these estimated costs, our profitability under these contracts may be negatively impacted. In addition, if we are not able to obtain sufficient work to keep all of our professionals on revenue generating projects, our business, financial condition, and results of operations may be adversely affected.

If we fail to meet client expectations in the performance of our services, our business could suffer.

Our failure to meet client expectations in the performance of our services, including the quality, cost, and timeliness of our services, may adversely affect our ability to attract and retain clients. If a client is not satisfied with our services, we will generally spend additional human and other resources at our own expense to ensure client satisfaction. Such expenditures will typically result in a lower margin on such engagements and could have a material adverse effect on our business, financial condition, and results of operations.

We may be unable to maintain our listing on The Nasdaq Capital Market, which could cause our stock price to fall and decrease the liquidity of our common stock.

Our common stock is currently listed on The Nasdaq Capital Market. Continued listing on The Nasdaq Capital Market requires us to meet certain qualitative standards, including maintaining a certain number of independent Board members and independent audit committee members, and certain quantitative standards, including that we maintain at least \$2.5 million in shareholders' equity and that the closing price of our common stock not be less than \$1.00 per share for 30 consecutive trading days. From March 14, 2005 until June 12, 2006, the date we effected a one-for-seven reverse stock split, our stock closed below \$1.00 per share. Between April 2005 and April 2006, we received three written notifications from the staff of The Nasdaq Stock Market, or the Staff, that the bid price of our common stock had closed below the minimum \$1.00 per share required for continued listing under Nasdaq Marketplace Rule 4310(c)(4), or the Rule.

In the April 2006 notice, the Staff stated that we had not regained compliance with the Rule, and as a result, our common stock would be delisted from The Nasdaq Capital Market at the opening of business on May 5, 2006, unless we requested an appeal hearing before a Listing Qualifications Panel, or the Panel, in accordance with Nasdaq Marketplace Rule 4800 Series. We requested a hearing before the Panel to review the Staff's delisting determination, which was granted and scheduled for June 15, 2006. On June 15, 2006, we appeared before the Panel and stated our request for continued listing.

On July 5, 2006, we received notice from Nasdaq that the Panel determined that we were in compliance with all Nasdaq Marketplace Rules, and eligible for continued listing on The Nasdaq Capital Market. As previously reported, on June 12, 2006, we effected a one-for-seven reverse split of our outstanding shares of common stock, or the Reverse Stock Split. As a result of the Reverse Stock Split, each holder of seven shares of common stock immediately prior to June 12, 2006 became the holder of one share of common stock. In addition, all outstanding options, warrants, convertible notes or other rights convertible into or exercisable for shares of common stock were adjusted in accordance with their terms and pursuant to the ratio of the Reverse Stock Split. Pursuant to the notice, the

Table of Contents

Panel noted that we had taken appropriate actions to resolve our bid price deficiency, and that our common stock had traded for more than ten consecutive trading days at over \$1.00 per share. Therefore, the Panel granted our request for continued listing on The Nasdaq Capital Market.

The notice also stated that the Nasdaq Listing and Hearing Review Council, or the Listing Council, may, on its own motion, determine to review any Panel decision within 45 calendar days after issuance of the written decision. If the Listing Council determines to review the decision, it may affirm, modify, reverse, dismiss, or remand the decision to the Panel.

From June 12, 2006, the date we effected the Reverse Stock Split, until the date of this Prospectus, our common has traded above the \$1.00 per share amount required under the Rule. There can be no assurance that our common stock will continue to trade above \$1.00 per share or that we will continue to meet all of the listing criteria for The Nasdaq Capital Market.

If our stock is delisted from The Nasdaq Capital Market or our share price declines significantly, then our stock may be deemed to be penny stock.

If our common stock is considered penny stock, it would be subject to rules that impose additional sales practices on broker-dealers who sell our securities. Because of these additional obligations, some brokers may be unwilling to effect transactions in our stock. This could have an adverse effect on the liquidity of our common stock and the ability of investors to sell their common stock. For example, broker-dealers must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Also, a disclosure schedule must be prepared prior to any transaction involving a penny stock and disclosure is required about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

If our stock is delisted from The Nasdaq Capital Market, we may be unable to license our products and sell our services to prospective or existing customers.

If our stock is delisted, our prospective and existing customers may lose confidence that we can continue as a viable business to provide support necessary to further develop our solutions and provide ongoing maintenance and consulting services. Prospective and existing customers could consider alternative solutions or significantly reduce the value they are willing to pay for our solutions to compensate for the potential added risk to their business. If our stock is delisted, our ability to meet our revenue goals could be adversely impacted, resulting in deterioration of the financial condition of our business.

Our success depends on our ability to retain key management personnel, whom we may not be able to retain.

We believe that our success depends on the continued employment of our senior management team. If one or more members of our senior management team were unable or unwilling to continue in their present positions, our success could be adversely affected.

We may not be able to hire or retain enough additional personnel to meet our hiring needs.

Our success also depends on having highly trained professional services and software development personnel. If we are unable to retain our personnel, it could limit our ability to service our customers and design and develop products, which could reduce our attractiveness to potential customers, investors, or acquirers. We may need to hire additional personnel if our business grows. A shortage in the number of trained consultants and developers could limit our ability to implement our software if we are able to license software to new customers or if our present customers ask us to perform more services for them. Competition for personnel, particularly for employees with technical expertise, could be strong. Our business, financial condition, and operating results will be materially adversely affected if we cannot hire and retain suitable personnel.

Our cost containment and cost reduction initiatives may yield unintended consequences, such as reduced employee morale, decreased productivity and disclosures of confidential information about us by employees that seek employment with others in violation of their confidentiality agreements with us.

Table of Contents

Fluctuations in our quarterly operating results may cause our stock price to decline.

Our quarterly operating results are difficult to forecast and could vary significantly. If our operating results in a future quarter or quarters do not meet the expectations of securities analysts or investors, the price of our common stock may fall. Our quarterly operating results will be substantially dependent on software licenses and professional services booked and delivered in that quarter. Any delay in the recognition of revenue for any of our license transactions or professional services could cause significant variations in our quarterly operating results and could cause our revenues to fall significantly short of anticipated levels. Our quarterly operating results could fluctuate significantly due to other factors, many of which are beyond our control, including:

anticipated lengthy sales cycle for our products;

the size and timing of individual license transactions;

intense and increased competition in our target markets;

our ability to develop, introduce, and bring to market new products and services, or enhancements to our existing products and services, on a timely basis; and

risks associated with past acquisitions.

If we are able to grow our business, we may not be able to manage the growth successfully.

If we are able to grow our business, such growth could place a significant strain on our resources and systems. To manage our growth, we must implement systems and train and manage our employees. In addition, we may not be able to limit our exposure to non-creditworthy customers.

We may seek to acquire another business or raise additional capital, which could dilute the ownership of our existing shareholders.

We may seek to grow our business by acquiring another business. In addition, we may seek to raise additional capital. We may be required to incur debt or issue equity securities to pay for acquisitions or to raise additional capital, which may be dilutive to our existing shareholders.

New versions and releases of our products may contain errors or defects.

Our enterprise software products may contain undetected errors or failures when first introduced or as new versions are released. This may result in loss of, or delay in, market acceptance of our products. Errors in new releases and new products after their introduction could result in delays in release, lost revenues and customer frustration during the period required to correct these errors. We may in the future discover errors and defects in new releases or new products after they are shipped or released.

We utilize third-party software that we incorporate into and include with our products and solutions, and impaired relations with these third-parties, defects in third-party software, or their inability or failure to enhance their software over time could have a material adverse effect on our operating performance and financial condition.

We incorporate and include third-party software into and with our products and solutions. We are likely to incorporate and include additional third-party software into and with our products and solutions as we expand our product offerings. If our relations with any of these third-party software providers become impaired, and if we are unable to obtain or develop a replacement for the software, our business could be harmed. Our products may be impacted if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third-parties will continue to invest the appropriate levels of resources in their products and services to maintain and enhance the capabilities of their software.

Table of Contents

We have shifted a significant portion of our product development operations to India, which poses significant risks.

Since September 2003, an unrelated third-party has provided us with software development services in Bangalore, India. We assumed a second software development agreement with another company in Bangalore in connection with our acquisition of B2eMarkets, Inc. Since September 2003, we have increased the proportion of our product development work being performed by contractors in India in order to take advantage of cost efficiencies associated with India's lower wage scale. However, we may not achieve the cost savings and other benefits we anticipate from this program and we may not be able to find sufficient numbers of developers with the necessary skill sets in India to meet our needs. We have a heightened risk exposure to changes in the economic, security, and political conditions of India. Economic and political instability, military actions, and other unforeseen occurrences in India could impair our ability to develop and introduce new software applications and functionality in a timely manner, which could put our products at a competitive disadvantage whereby we lose existing customers and/or fail to attract new customers.

Our target markets are evolving and characterized by rapid technological change, with which we may not be able to keep pace.

The markets for our products and services are evolving and characterized by rapid technological change, changing customer needs, evolving industry standards, and frequent new product and service announcements. The introduction of products employing new technologies and emerging industry standards could render our existing products or services obsolete or unmarketable. If we are unable to respond to these developments successfully or do not respond in a cost-effective way, our business, financial condition, and operating results will suffer. To be successful, we must continually improve and enhance the responsiveness, services, and features of our enterprise software products and introduce and deliver new product and service offerings and new releases of existing products. We may fail to improve or enhance our software products or fail to introduce and deliver new releases or new offerings on a timely and cost-effective basis or at all. If we experience delays in the future with respect to our software products, or if our improvements, enhancements, offerings, or releases to these products do not achieve market acceptance, we could experience a delay or loss of revenues and customer dissatisfaction. Our success will also depend in part on our ability to acquire or license third-party technologies that are useful in our business, which we may not be able to do.

We may ultimately be unable to compete in the markets for the products and services we offer.

The markets for our enterprise software products and services are intensely competitive, which may result in low or negative profit margins and difficulty in achieving market share, either of which could seriously harm our business. We expect the intensity of competition to increase. Our enterprise software products and services face competition from software companies whose products or services compete with a particular aspect of the solution we provide, as well as several major enterprise software developers and consulting firms. Many of our competitors have longer operating histories, greater brand recognition, and greater financial, technical, marketing, and other resources than we do, and may have well-established relationships with our existing and prospective customers. This may place us at a disadvantage in responding to our competitors pricing strategies, technological advances, advertising campaigns, strategic partnerships, and other initiatives. Our competitors may also develop products or services that are superior to or have greater market acceptance than ours. If we are unable to compete successfully against our competitors, our business, financial condition, and operating results would be negatively impacted.

If we do not develop the Verticalnet brand in the supply management solution industry, our revenues might not increase.

We must establish and continuously strengthen the awareness of the Verticalnet brand in the supply management solution industry. If our brand awareness as a maker of supply management solution software does not develop, or if developed, is not sustained as a respected brand, it could decrease the attractiveness of our products and services to potential customers, which could result in decreased revenues.

We may not be able to protect our proprietary rights and may infringe the proprietary rights of others.

Proprietary rights are important to our success and to our competitive position. We may be unable to register, maintain, and protect our proprietary rights adequately. Although we file copyright registrations for the source code underlying our software, enforcement

Table of Contents

of our rights might be too difficult and costly for us to pursue effectively. We have filed patent applications for the proprietary technology underlying our software, but our ability to fully protect this technology is contingent upon the ultimate issuance of the corresponding patents. Effective patent, copyright, and trade secret protection of our software may be unavailable or limited in certain countries. In addition, third parties may claim that our current or potential future products infringe their intellectual property rights. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product and service delivery delays or require us to enter into royalty or licensing agreements, which, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

Several lawsuits have been brought against us and the outcome of these lawsuits is uncertain.

Several lawsuits have been brought against us and the underwriters of our stock in our initial public offering. These lawsuits allege, among other things, that the underwriters engaged in sales practices that had the effect of inflating our stock price, and that our prospectus for that offering was materially misleading because it did not disclose these sales practices. In addition, a lawsuit has been brought against us alleging, among other things, that we failed to properly register certain Verticalnet stock delivered pursuant to an acquisition in 2000. We intend to vigorously defend ourselves against these lawsuits; however, no assurance can be given as to the outcome of these lawsuits.

Shares eligible for future sale by our current or future shareholders may cause our stock price to decline.

If our shareholders, option holders, warrant holders, or holders of convertible notes sell substantial amounts of our common stock in the public market, including shares issued in completed or future acquisitions, upon the exercise of outstanding options and warrants, or upon conversion of convertible notes, then the market price of our common stock could fall. We also have filed a shelf registration statement to facilitate our acquisition strategy, as well as registration statements to register shares of common stock under our equity compensation and employee stock purchase plans. Shares issued pursuant to existing or future shelf registration statements, upon exercise of stock options and warrants, upon conversion of convertible notes, and in connection with our employee stock purchase plan will be eligible for resale in the public market without restriction.

Anti-takeover provisions and our right to issue preferred stock could make a third-party acquisition of us difficult.

Verticalnet is a Pennsylvania corporation. Anti-takeover provisions of Pennsylvania law could make it more difficult for a third party to acquire control of us, even if such change in control would be beneficial to our shareholders. Our articles of incorporation provide that our Board of Directors may issue preferred stock without shareholder approval. In addition, our bylaws provide for a classified board, with each board member serving a staggered three-year term. The issuance of preferred stock and the existence of a classified board could make it more difficult for a third party to acquire us.

Our common stock price is likely to remain highly volatile.

The market for stocks of technology companies has been highly volatile since our initial public offering in 1999. Throughout this period, the market price of our common stock has reached extreme highs and lows, and our daily trading volume has been, and will likely continue to be, highly volatile. Investors may not be able to resell their shares of our common stock following periods of price or trading volume volatility because of the market's adverse reaction to such volatility. Factors that could cause volatility in our stock price and trading volume, in some cases regardless of our operating performance, include, among other things:

general economic conditions, including suppressed demand for technology products and services;

actual or anticipated variations in quarterly operating results;

announcements of technological innovations;

new products or services;

Edgar Filing: VERTICALNET INC - Form S-3

changes in the market valuations of other software or technology companies;

failure to meet analysts or investors expectations;

announcements by us or our competitors of significant acquisitions, strategic partnerships, or joint ventures;

our cash position and cash commitments;

Table of Contents

our prospects for enterprise software sales and new customers; and

additions or departures of key personnel.

Acquisitions may disrupt or otherwise have a negative impact on our business.

We have made, and plan to continue to make, investments in and acquisitions of complementary companies, technologies, and assets. Future and past acquisitions are subject to the following risks:

acquisitions may cause a disruption in our ongoing business, distract our management and other resources, and make it difficult to maintain our standards, controls, and procedures;

we may acquire companies in markets in which we have little experience;

we may not be able to successfully integrate the services, products, and personnel of any acquisition into our operations;

we may be required to incur debt or issue equity securities, which may be dilutive to existing shareholders, to pay for the acquisitions;

we may be exposed to unknown or undisclosed liabilities; and

our acquisitions may not result in any return on our investment and we may lose our entire investment.

Interruptions or delays in service from our third-party Web hosting facilities could impair the delivery of our service and harm our business.

We provide our service through computer hardware that is currently located in a third-party web hosting facility in Dulles, Virginia operated by ServerVault, Inc. We also provide our service through a co-location facility located in Philadelphia, Pennsylvania operated by SunGard, Inc. We do not control the operation of these facilities, and they may be subject to damage or interruption from floods, fires, power loss, telecommunications failures, and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism, and similar misconduct. Despite precautions taken at the facilities, the occurrence of a natural disaster, a decision to close a facility without adequate notice, or other unanticipated problems at a facility could result in lengthy interruptions in our service. In addition, the failure by a facility to provide our required data communications capacity could result in interruptions in our service. While we are not aware of any such interruptions, if an actual or perceived interruption of our applications occurred or if our applications become unstable or unavailable, the perception by existing or potential customers of our applications could be harmed and we could lose sales and customers. In addition, we may be subject to service level penalties, which could materially and adversely affect our business, financial condition, and operating results.

If our security measures are breached and unauthorized access is obtained to a customer's data, our on-demand applications may be perceived as not being secure and customers may curtail or stop using our service.

Our on-demand supply management application model involves the storage, analysis, and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss or corruption of this information, litigation, and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party obtains access to one or more of our customers' data, our reputation could be damaged, our business may suffer, and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage computer systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. While we are not aware of any such breach, if an actual or perceived breach of our security occurs, the perception by existing or potential customers of the effectiveness of our security measures could be harmed and we could lose sales and customers.

If our software or the third-party software we use to support and enable our applications is subject to intrusion or corruption by third parties, our applications could become unstable or unavailable to our customers.

We use our own software as well as third-party software to support or enable our applications which may be subject to intrusion or corruption by third parties, which may render our on-demand applications unstable or unavailable to our customers.

Table of Contents

While we are not aware of any such intrusion, if an actual or perceived intrusion or corruption of our software or third-party software which we use to support or enable our applications occurs, and our applications become unstable or unavailable, the perception by existing or potential customers of our applications could be harmed and we could lose sales and customers.

If our on-demand application model is not widely accepted, our operating results will be harmed.

We expect to derive an increasing portion of our software revenues from subscriptions to our on-demand applications. As a result, widespread acceptance of our on-demand supply management applications is critical to our future success. Factors that may affect market acceptance of our on-demand applications include:

potential reluctance by enterprises to migrate to an on-demand application model;

the price and performance of our on-demand applications;

the level of customization we can offer;

the availability, performance, and price of competing products and services; and

potential reluctance by enterprises to trust third parties to store and manage their internal data.

Many of these factors are beyond our control. The inability of our on-demand applications model to achieve widespread market acceptance would harm our business.

Because we will recognize revenue from our on-demand applications over the term of the agreement, downturns or upturns in sales may not be immediately reflected in our operating results.

We will recognize revenue from customers with hosted term-based licenses over the term of their agreements, which are typically 12 to 24 months, although terms can range from one to 36 months. As a result, a portion of the revenue we report in each quarter will be from agreements entered into during previous quarters. Consequently, a decline in new or renewed agreements in any one quarter will not necessarily be fully reflected in the revenue in that quarter and may negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect these reduced revenues. Accordingly, the effect of significant downturns in sales and market acceptance of our service may not be fully reflected in our results of operations until future periods. Our on-demand application model will also make it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable agreement term.

We do not have an adequate history with our on-demand application model to predict the rate of customer renewals and the impact these renewals will have on our revenue or operating results.

Our customers have no obligation to renew their agreements for our service after the expiration of their initial contract period and some customers have elected not to do so. In addition, our customers may decide not to renew unless we offer lower prices or agree to reduce the number of users. We have limited historical data with respect to rates of customer renewals, so we may not be able to accurately predict customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our applications or the customers' ability to continue their operations and spending levels. If our customers do not renew their agreements for our on-demand supply management applications, our revenue may decline and our business may suffer.

Our future success also depends in part on our ability to sell additional features or functions of our applications, additional applications, or additional services to our current customers. This may require increasingly sophisticated and costly sales efforts that are targeted at our customers' senior management. If these efforts are not successful, our business may suffer.

A failure to adequately expand our direct sales force may impede our growth.

We expect to be substantially dependent on our direct sales force to obtain new customers, particularly large enterprise customers, and to manage our customer base. We believe that there is significant competition for direct sales personnel with the advanced sales skills and technical knowledge we need. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training, and retaining sufficient direct sales personnel. New hires require significant training and may, in

Table of Contents

some cases, take more than a year before they achieve full productivity. Our recent or future hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. If we are unable to hire and develop sufficient numbers of productive sales personnel, sales of our products and services may suffer. We have also reduced our sales force as part of our cost containment and cost reduction initiatives. Our failure to field an effective sales organization could have a material adverse effect on our operating performance and financial condition.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

Under generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, resulting in an impact on our results of operations. Based upon the recent decline in our stock price, we believe that an impairment review of our goodwill and amortizable assets is necessary. We have begun this process and based on our preliminary analysis, we believe that a charge to earnings will be necessary for the three months ended June 30, 2006. As of July 14, 2006, we were unable to determine the amount of the impairment.

Changes in the value of the U.S. dollar, in relation to the currencies of foreign countries where we transact business, could harm our operating performance and financial condition.

International operations represent an increasing portion of our revenues. We expect to continue to commit significant resources to our international sales and marketing activities. For international sales and expenditures denominated in foreign currencies, we are subject to risks associated with currency fluctuations, particularly as a result of the decline in the value of the U.S. dollar compared to other foreign currencies. Although such international revenues are increasing, because such amounts are still relatively immaterial, we have not to date hedged our risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings. In the event we do begin hedging activities, there is no guarantee our hedging strategy will be successful and that currency exchange rate fluctuations will not have a material adverse effect on our operating results.

Our one-for-seven reverse stock split could have various negative effects on our common stock and our shareholders.

Our one-for-seven reverse stock split effected on June 12, 2006 resulted in an immediate increase in the market price of our common stock. However, this increase in the market price of our common stock may not be in proportion to the reduction in the number of shares of our common stock outstanding or result in a permanent increase in the market price (which depends on many factors, including our performance, prospects and other factors that may be unrelated to the number of shares outstanding). If the market price of our common stock declines, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would occur in the absence of the reverse stock split. Furthermore, the liquidity of our common stock may be adversely affected by the reduced number of shares that are now outstanding following the reverse stock split. In addition, the reverse stock split has likely increased the number of our shareholders who own odd lots (less than 100 shares). Shareholders who hold odd lots typically will experience an increase in the cost of selling their shares, as well as possibly greater difficulty in effecting such sales.

Issuance of shares of common stock upon conversion or repayment of our convertible notes and exercise of warrants will dilute the ownership interest of existing shareholders and could adversely affect the market price of our common stock.

We may issue shares of common stock (i) upon conversion of some or all of our convertible notes, (ii) in satisfaction of our principal and interest payment obligations under the convertible notes, in lieu of cash payments, and (iii) upon exercise of warrants. Any of these issuances will dilute the ownership interests of existing shareholders. Any sales in the public market of this common stock could adversely affect prevailing market prices of the common stock. In addition, the existence of these convertible notes and warrants may encourage short selling by market participants.

Table of Contents

Our convertible notes are secured by substantially all of our assets.

The holders of our convertible notes received a security interest in and a lien on substantially all of our assets, including our existing and future accounts receivable, cash, general intangibles (including intellectual property) and equipment. As a result of this security interest and lien, if we fail to meet our payment or other obligations under the convertible notes, the holders would be entitled to foreclose on and liquidate substantially all of our assets. Under those circumstances, we may not have sufficient funds to service our day-to-day operational needs. Any foreclosure by the holders of the convertible notes would have a material adverse effect on our financial condition.

FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this prospectus contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate, estimate, expect, project, intend, plan, believe, and other words and terms having meaning in connection with any discussion of future operating or financial performance.

Any or all of our forward-looking statements in this prospectus may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this prospectus will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult any additional disclosures we make in our reports to the SEC on Forms 10-K, 10-Q, 8-K, and amendments thereto. Also note that we provide a cautionary discussion of risks and uncertainties under **Risk Factors** on page 2 of this prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

USE OF PROCEEDS

We will not receive any proceeds from the resale of the common stock offered through this prospectus.

SELLING SHAREHOLDERS

Shares Being Registered

This prospectus relates to the public offering, which is not being underwritten, of 2,000,000 shares of common stock, none of which is outstanding and all of which may be issued as payment of principal and interest on our convertible notes or upon conversion of the convertible notes.

We issued the convertible notes and warrants to purchase shares of common stock to certain independent institutional investors in a private placement transaction that closed on August 16, 2005. The private placement transaction was exempt from the registration requirements of the Securities Act of 1933, as amended.

The shares of common stock being offered by this prospectus by the selling shareholders are issuable upon conversion of the convertible notes or as principal and interest payments on the convertible notes. We are registering the shares of common stock in order to permit the selling shareholders to offer the shares for resale from time to time.

The table below lists the selling shareholders and other information regarding the beneficial ownership of the shares of common stock by each selling shareholder. The column titled **Shares Beneficially Owned Before Offering** lists the number of shares of common stock beneficially owned by each selling shareholder, including the shares of common stock beneficially owned assuming conversion of all the convertible notes into shares of common stock. The number of shares of common stock set forth in this column is based on the initial conversion price of the convertible notes, as adjusted for the Reverse Stock Split, of \$4.90 per share. However, the conversion price of the convertible notes is subject to adjustment from time to time.

Table of Contents

The column titled *Shares Offered Hereby* lists the shares of common stock being offered pursuant to this prospectus by each selling shareholder assuming conversion of the convertible notes into shares of common stock. Because the conversion price used for paying principal and interest on the convertible notes in shares of common stock and the conversion price otherwise used for converting the convertible notes into shares of common stock may be adjusted, the number of shares of common stock set forth in this column consists of our estimate of the shares of common stock that will be issued to the selling shareholders throughout the remaining term of the convertible notes.

This prospectus generally covers the resale by the selling shareholders of the sum of (i) the number of shares of common stock issuable as principal and interest payments throughout the remaining term of the convertible notes, and (ii) the number of shares of common stock issuable upon conversion of the convertible notes based on the remaining unpaid principal amount of the convertible notes. Because the conversion price of the convertible notes may be adjusted, the number of shares that will actually be issued may be more or less than the number of shares being offered by this prospectus.

Under the terms of the convertible notes, the selling shareholders may not convert the convertible notes to the extent such conversion would cause such selling shareholder to beneficially own a number of shares of common stock which would exceed 4.9% (or if the selling shareholder gives notice to such effect in accordance with the terms of the convertible notes, 9.9%) of our then outstanding shares of common stock following such conversion. The selling shareholders may waive any restrictions upon conversion of the convertible notes that would limit the number of shares of common stock that the selling shareholders could beneficially own. The number of shares in the columns titled *Shares Beneficially Owned Before Offering* and *Shares Offered Hereby* do not reflect this limitation.

Selling Shareholders

We have agreed with each selling shareholder to file a registration statement to register for resale the shares of common stock set forth below. Except as noted in the footnotes below, none of the selling shareholders has held any position or office with us or any of our predecessors or affiliates within the last three years or has had a material relationship with us or any of our predecessors or affiliates within the past three years other than as a result of the ownership of our shares or other securities. Shares may also be sold by donees, pledgees, and other transferees or successors in interest of the selling shareholders.

The following table sets forth information, as of July 3, 2006, with respect to each selling shareholder. The information below is based on information provided by or on behalf of the selling shareholders. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. The percentage of ownership for the selling shareholders disclosed in this table is based on 7,884,788 shares of common stock outstanding as of July 3, 2006, which includes 95,544 shares of common stock which are being held in escrow in connection with a recent acquisition. Both the number of shares listed as being offered by the selling shareholders in the table and the holders' respective percentages of share ownership after the offering are based on the assumptions that all of the shares being offered are sold pursuant to this offering, and that no other shares of common stock are acquired or disposed of by the selling shareholders prior to the termination of this offering. Because the selling shareholders may sell all, some, or none of their shares or may acquire or dispose of other shares of common stock, we cannot estimate the aggregate number of shares that will be sold in this offering or the number or percentage of shares of common stock that the selling shareholders will own upon completion of this offering.

Table of Contents

Name	Shares Beneficially Owned Before Offering		Shares Offered	Shares Beneficially Owned After Offering	
	Number	Percentage	Hereby	Number	Percentage
Alpha Capital AG (1)	112,297(2)	1.40%	162,252	51,072(2)	*
Bristol Investment Fund, Ltd. (3)	106,601(4)	1.33%	101,651	68,244(4)	*
CAMOFI Master LDC (5)	112,297(2)	1.40%	162,252	51,072(2)	*
Castle Creek Technology Partners LLC (6)	370,049(7)	4.53%	324,504	247,960(7)	2.96%
DKR Soundshore Oasis Holding Fund Ltd. (8)	117,499(2)	1.47%	162,252	56,274(2)	*
Harborview Master Fund L.P. (9)	89,838(10)	1.13%	129,802	40,858(10)	*
Iroquois Master Fund, Ltd. (11)	258,281(12)	3.21%	373,180	161,621(12)	1.92%
JGB Capital L.P. (13)	67,378(14)	*	97,351	30,643(14)	*
Platinum Long term Growth I, LLC (15)	56,148(16)	*	81,126	25,536(16)	*
Portside Growth and Opportunity Fund (17)	56,148(16)	*	81,126	25,536(16)	*
Smithfield Fiduciary LLC (18)	112,297(2)	1.42%	162,252	51,072(2)	*
Whalehaven Capital Fund Limited (19)	123,727(20)	1.56%	162,252	62,502(20)	*
Total	1,582,560(21)	17.56%	2,000,000	872,390(21)	8.18%

* Less than 1 percent.

- (1) Konrad Ackerman and Raines Posch have voting and invest-
 Allision transmissions are sold under the Allision Transmission brand name and remanufactured transmissions are sold under the ReTran brand name. The following is a summary of our 12 transmission product lines.

Table of Contents

Product Development and Engineering

We maintain product development and engineering capability dedicated to the design, development, refinement and support of our fully-automatic transmissions and electric hybrid-propulsion systems. We believe our customers expect our products to provide unparalleled performance and value defined in various ways, including delivering maximum cargo in minimum time, using the least amount of fuel possible while employing the fewest vehicles possible and experiencing maximum vehicle uptime. In response to those needs and the evolving customer focus on fuel efficiency, we provide vehicle specification guidelines, transmission control software and mechanical components to optimize fuel economy while delivering desired vehicle performance. Further, we are developing new technology to improve fuel efficiency and fuel economy by allowing engines to operate more efficiently and at lower speeds to avoid consuming fuel without compromising performance. Building on our engineering capabilities, we pioneered electric hybrid-propulsion in commercial vehicles and are developing new alternative technologies for use in our global commercial vehicle markets. From time to time, we also acquire certain licenses to provide us with technology to complement our portfolio of products and product initiatives.

12

Table of Contents

Sales and Marketing Organization

Our sales and marketing effort is organized along geographic and customer lines and is comprised of marketing, sales and service professionals, supported by application engineers worldwide. In North America, selling efforts in the on-highway end market are organized by distributor area responsibility, OEM sales and, for our large end users, national accounts. Outside North America, we manage our sales, marketing, service and application engineering professionals through regional areas of responsibility. These regional management teams distribute OEM service and application engineering resources globally. We manage our defense products sales, marketing, service and application engineering through professionals based in Indianapolis, Indiana and Detroit, Michigan. We have developed a marketing strategy to reach OEM customers as well as end users. We target our end users primarily through marketing activities by our sales staff, who directly call on end users and attend local trade shows, targeting specific vocations globally and through our plant tour programs, where end users may test our products on the Indianapolis test track and our enhanced customer experience demonstration track at our Hungary facility.

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

- OEM promotion of our products and incorporation of fully-automatic transmissions in their commercial vehicle product offerings;
- Allison representative and/or Allison distributor contact with identified, major end users;
- and

• Our network of independent dealers who contact other end users.

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

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

Manufacturing

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

Suppliers and Raw Materials

A significant amount of the part numbers that make up our transmissions are purchased from outside suppliers, and during 2018, we purchased approximately \$849 million of direct materials and components from outside suppliers. The largest elements of our direct spending are aluminum and steel castings and forgings that are formed by our suppliers into our larger components and assemblies for use in our transmissions. However, our spending on aluminum and steel raw materials directly and indirectly through our purchase of these components constituted approximately 13% of our direct material and component costs in 2018. The balance of our direct and indirect materials and components costs are primarily composed of value-added services and conversion costs. Our supply contracts, along with an intensive supplier selection and performance monitoring process, have enabled us to establish and maintain close relationships with suppliers and have contributed to our overall operating efficiency and quality.

Table of Contents

Intellectual Property

Patents and other proprietary rights are important to the continued success of our business. We also rely upon trade secrets, know-how, continuing technological innovation and licensing opportunities to develop and maintain our competitive position. We protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with suppliers, employees, consultants and others who may have access to proprietary information. We own over 450 issued patents worldwide related to the design and production of transmissions for our core end markets. In addition, we own over 300 issued patents worldwide related to developing other transmission technologies. We also have licensing arrangements with respect to more than 400 additional patents and patent applications. We have more than 450 pending patent applications throughout the world that relate to aspects of the technology incorporated in many of our products.

We have an irrevocable, royalty-free, worldwide license of more than 250 U.S. and foreign patents and patent applications, as well as certain unpatented technology and know-how, owned by General Motors Company (“GM”) to manufacture, use and sell fully-automatic transmissions and certain electric hybrid-propulsion systems for use in vocational and defense vehicles and off-highway products. Such licenses are subject to certain limitations. See Part I, Item 1A, “Risk Factors” of this Annual Report on Form 10-K for a discussion of these risks and limitations. We also acquired from GM an irrevocable, royalty-free, worldwide license under computer software programs that we use to run our business, including product design. In addition, GM has a license to use certain Allison trademarks.

Seasonality

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

Employees

As of December 31, 2018, we had approximately 2,900 employees, with approximately 90% of those employees in the U.S.

Approximately 59% of our U.S. employees are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (“UAW”) and are subject to a collective bargaining agreement. In December 2017, we entered into a six year collective bargaining agreement with UAW Local 933 that expires in November 2023. As approximately 30% of our represented employees are currently retirement eligible, we anticipate a continuing shift toward increasing the number of multi-tier employees over the coming years. There have been no strikes or work stoppages due to Allison-specific issues in over 30 years.

Table of Contents

Environmental Compliance

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

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

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

In January 2016, we assumed all responsibility for operating, monitoring and maintaining the ongoing activities at our Indianapolis, Indiana manufacturing facilities relating to historical soil and ground water contamination. We entered into an administrative order of consent with the EPA that requires us to provide financial assurance to complete the operation, monitoring and maintenance in the event we fail to do so. We currently have a letter of credit with the EPA in the amount of \$15 million.

Competition

We compete on the basis of product performance, quality, price, distribution capability and service in addition to other factors. We face competition from numerous manufacturers of various types of transmissions for commercial vehicles. We also face competition from manufacturers in our international operations and from international manufacturers entering our domestic market. Furthermore, we face an increasing amount of competition from vertical integration, as some of our customers are OEMs that manufacture transmissions for their own products, and from powertrains that do not require a transmission. Despite their transmission manufacturing capabilities, we believe that our existing OEM customers have chosen to purchase certain transmissions from us due to the quality, reliability and strong brand of our transmissions and in order to limit fixed costs, minimize production risks and maintain company focus on commercial vehicle design, production and marketing.

Table of Contents

Corporate Information

Allison Transmission Holdings, Inc. was incorporated in Delaware on June 22, 2007. Our principal executive offices are located at One Allison Way, Indianapolis, IN 46222 and our telephone number is (317) 242-5000. Our internet address is www.allisontransmission.com. We file annual, quarterly and current reports, proxy statements and other documents with the United States Securities and Exchange Commission ("SEC"), under the Securities Exchange Act of 1934, as amended ("Exchange Act"). These periodic and current reports and all amendments to those reports are available free of charge on the investor relations page of our website at <http://ir.allisontransmission.com> as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. We have included our website address throughout this filing as textual references only. The information contained on, or accessible through, our website is not incorporated into this Annual Report on Form 10-K. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Table of Contents

ITEM 1A. Risk Factors

The following is a cautionary discussion of risks, uncertainties and assumptions that we believe are significant to our business. In addition to the factors discussed elsewhere in this Annual Report on Form 10-K, the following are the important factors that, individually or in the aggregate, we believe could make our actual results differ materially from those described in any forward-looking statements.

Risks Related to Our Business

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

Our business operates in competitive markets. We compete against other existing or new global manufacturers of transmissions for commercial vehicles on the basis of product performance, quality, price, distribution capability and service in addition to other factors. In addition, we compete with manufacturers developing alternative technologies, including electric drivetrains, that may or may not require a transmission. In addition, subsidies offered by governmental entities continue to drive the development and adoption of various alternative technologies. Actions by our competitors could lead to downward pressure on prices and/or a decline in our market share, either or both of which could adversely affect our results.

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

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

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

Table of Contents

Volatility in and disruption to the global economic environment and changes in the regulatory and business environments in which we operate may have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

We have in the past and may in the future derive a significant portion of our net sales from a relatively limited number of OEM customers. For the years ended December 31, 2018, 2017 and 2016, our top five OEM customers accounted for approximately 49%, 49% and 52% of our net sales, respectively. Our top two customers, Daimler AG and PACCAR Inc. accounted for approximately 18% and 10%, respectively, of our net sales during 2018. The loss of, or consolidation of, any one of these customers, or a significant decrease in business from, one or more of these customers could harm our business. In addition, the discontinuation of particular vehicle models for which we are a significant supplier could reduce our net sales and have a material adverse effect on our results of operations.

Table of Contents

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

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

We may not be able to identify or consummate acquisitions or achieve expected benefits from or effectively integrate acquisitions, which could harm our growth.

From time to time we evaluate selective acquisitions and strategic investments to obtain additional technologies, complementary product lines and supply channels. Acquisitions involve many risks that could have an adverse effect on our business, financial condition or results of operations, including:

- our ability to identify suitable acquisition candidates, prevail against competing potential acquirers and negotiate and consummate acquisitions on terms attractive to us;
- difficulties in integrating personnel and sales forces, operations, manufacturing, logistics, research and development, information technology, communications, purchasing, accounting, marketing, administration and other systems and processes and otherwise assimilating the operations of the acquired company;
- the diversion of resources, including diverting management's attention from our current operations;
- risks of entering new geographic or product markets in which we have limited or no direct prior experience;
- the potential loss of key customers, employees or suppliers of the acquired company or adverse effects on our existing business relationships with our suppliers and customers;
- the potential incurrence of indebtedness to fund the acquisition;
- the acquired business not achieving anticipated revenues, earnings, cash flow or market share;
- excess capacity;
- failure to achieve the expected synergies or cost savings resulting from the acquisition;
- the need for additional investments post-acquisition that could be greater than anticipated;
- the impact of U.S. and foreign competition laws and regulations on our ability to make certain acquisitions;
- inaccurate assessment of undisclosed, contingent or other liabilities or problems and unanticipated costs associated with the acquisition;
- incorrect estimates made in accounting for acquisitions, incurrence of non-recurring charges and write-off of significant amounts of goodwill that could adversely affect our financial results; and
- dilution of earnings.

We may also face liability with respect to acquired businesses for violations of environmental or other laws occurring prior to the date of our acquisition, and some or all of these liabilities may not be covered by environmental or other insurance secured to mitigate the risk or by indemnification from the sellers from which we acquired these businesses. We could also incur significant costs, including, but not limited to, remediation costs, natural resources damages, civil or criminal fines and sanctions and third-party claims, as a result of past or future violations of, or liabilities associated with, environmental or other laws.

We cannot offer any assurance that we will be able to consummate any future acquisitions, strategic investments or other business combinations. If we are unable to identify suitable acquisition candidates or to consummate and successfully integrate strategic acquisitions, our business and results of operations may be adversely affected as a result.

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

Our products contain various raw materials, including corrosion-resistant steel, non-ferrous metals such as aluminum and nickel, and precious metals such as platinum and palladium. We use raw materials directly in manufacturing and in transmission components that we purchase from our suppliers. We generally purchase components with significant raw material content on the open market. The prices for these raw materials fluctuate depending on market conditions. Volatility in the prices of raw materials such as steel, aluminum and nickel could increase the cost of manufacturing our products. We may not be able to pass on these costs to our customers, and

Table of Contents

this could have a material adverse effect on our business, results of operations and financial condition. Even in the event that increased costs can be passed through to customers, our gross margin percentages would decline. Additionally, our suppliers are also subject to fluctuations in the prices of raw materials and may attempt to pass all or a portion of such increases on to us. In the event they are successful in doing so, our margins would decline.

In 2018, approximately 75% of our total spending on components was sourced from approximately 35 suppliers, some of which are the single source for such components. All of the suppliers from which we purchase materials and components used in our business are fully validated suppliers, meaning the suppliers' manufacturing processes and inputs have been validated under a production part approval process ("PPAP"). Furthermore, there are only a limited number of suppliers for certain of the materials used in our business, such as corrosion-resistant steel. As a result, our business is subject to the risk of additional price fluctuations and periodic delays in the delivery of our materials or components if supplies from a validated supplier are interrupted and a new supplier, if one is available, must be validated or materials and components must be purchased from a supplier without a completed PPAP, which could increase our risk of purchasing non-conforming components. Any such price fluctuations or delays, if significant, could harm our profitability or operations. In addition, the loss of a supplier could result in significant material cost increases or reduce our production capacity. We also cannot guarantee we will be able to maintain favorable arrangements and relationships with these suppliers. An increase in the cost or a sustained interruption in the supply or shortage of some of these raw materials or components that may be caused by a deterioration of our relationships with suppliers or by events such as natural disasters, power outages, labor strikes, or the like could negatively impact our business, results of operations and financial condition. Although we have agreements with many of our customers that we will pass such price increases through to them, such contracts may be canceled by our customers and/or we may not be able to recoup the costs of such price increases. Additionally, if we are unable to continue to purchase our required quantities of raw materials on commercially reasonable terms, or at all, if we are unable to maintain or enter into purchasing contracts for commodities, or if delivery of materials from suppliers is delayed or non-conforming, our operations could be disrupted or our profitability could be adversely impacted.

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

We rely on our cost structure and operating discipline to achieve strong operating margins. There are many factors that could affect our ability to realize expected cost savings or achieve future cost savings that we are not able to control, including the need for unexpected significant capital expenditures; unexpected changes in commodity or component pricing, including an increase in export or import tariffs, that we are unable to pass on to our suppliers or customers; labor costs, including wages, benefits and healthcare; cost inflation; and our inability to maintain efficiencies gained from our workforce optimization initiatives. Additionally, we have substantial indebtedness of approximately \$2,548 million as of December 31, 2018. Our inability to maintain our cost controls could adversely impact our operating margins.

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

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

Table of Contents

Our sales to the Defense end market are to government entities and contractors for the U.S. and foreign governments, and the loss of a significant number of our contracts, or budgetary declines or future reductions or changes in spending by the U.S. or foreign governments could have a material adverse effect on our results of operations and financial condition.

Our net sales to the Defense end market are derived from contracts (revenue arrangements) with agencies of, and prime system contractors for, the U.S. government and foreign governments. If a significant number of our Defense contracts and subcontracts are simultaneously delayed or cancelled for budgetary, performance or other reasons, it would have a material adverse effect on our results of operations and financial condition. Approximately 6%, or \$158 million, of our net sales for the year ended December 31, 2018 were from our Defense end market.

Our future financial results may be adversely affected by:

- declines in, or uncertainty regarding, U.S. or foreign government defense budgets;
- curtailment of the U.S. government’s use of technology or other services and product providers, including curtailment due to government budget reductions, future government shutdowns and related fiscal matters;
- geopolitical developments that affect demand for our products and services; and
- technological developments that impact purchasing decisions or our competitive position.

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

Our business is subject to certain risks associated with doing business internationally, particularly in emerging markets. Outside-North America net sales represented approximately 23% of our net sales for 2018. Most of our operations are in the U.S., but we also have manufacturing and customization facilities in India and Hungary with a services agreement with Opel Szentgotthard Automotive Manufacturing Ltd., formerly GM-PTH, and customization capability in Brazil, The Netherlands, China and Japan. Further, we intend to continue to pursue growth opportunities for our business in a variety of business environments outside the U.S., which could exacerbate the risks set forth below. Our international operations are subject to, without limitation, the following risks:

- the burden of complying with multiple and possibly conflicting laws and any unexpected changes in regulatory requirements;
- foreign currency exchange controls, sanctions, import and export restrictions and tariffs, including restrictions promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, and other trade protection regulations and measures;
- political risks, including increased trade protectionism and risks of loss due to civil disturbances, acts of terrorism, acts of war, guerilla activities and insurrection;
- unstable economic, financial and market conditions and increased expenses as a result of inflation or higher interest rates;
- difficulties in enforcement of third-party contractual obligations and intellectual property rights and collecting receivables through foreign legal systems;
- difficulty in staffing and managing international operations and the application of foreign labor regulations;
- differing local product preferences and product requirements;
- fluctuations in currency exchange rates to the extent that our assets or liabilities are denominated in a currency other than the functional currency of the country where we operate;
- potentially adverse tax consequences from changes in tax laws, requirements relating to withholding taxes on remittances and other payments by subsidiaries and restrictions on our ability to repatriate dividends from our subsidiaries; and
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act (“FCPA”) and similar laws and regulations in other jurisdictions.

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

Table of Contents

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

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

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

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

Furthermore, our business depends on the strong brand reputation we believe we have developed. In addition to the risk of defective products, we also face significant risks in our efforts to penetrate new markets, where we have limited brand recognition. We also rely on our reputation with end users of our transmissions to specify our transmissions when purchasing new vehicles from our OEM customers. In the event we are not able to maintain or enhance our brand in these new markets or our reputation is damaged in our existing markets as a result of product defects or recalls, we may face difficulty in maintaining our pricing positions with respect to some of our products or experience reduced demand for our products, which could negatively impact our business, results of operations and financial condition. Additionally, we license the "Allison Transmission" name and certain related trademarks to third parties. If any third party uses the trade name "Allison Transmission" in ways that adversely affect such trade name or trademark, our reputation could suffer damage, which in turn could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents

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

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

We are subject to cybersecurity risks to operational systems, security systems, or infrastructure owned by Allison or third-party vendors or suppliers.

We are at risk for interruptions, outages, and breaches of: (i) operational systems, including business, financial, accounting, product development, data processing, or manufacturing processes, owned by us or our third-party vendors or suppliers; (ii) facility security systems, owned by us or our third-party vendors or suppliers; and/or (iii) transmission control modules or other in-product technology, owned by us or our third-party vendors or suppliers. Such cyber incidents could materially disrupt operational systems; result in loss of intellectual property, trade secrets or other proprietary or competitively sensitive information; compromise personally identifiable information of employees, customers, suppliers, or others; jeopardize the security of our facilities; and/or affect the performance of transmission control modules or other in-product technology. A cyber incident could be caused by malicious third parties using sophisticated, targeted methods to circumvent firewalls, encryption, and other security defenses, including hacking, fraud, trickery, or other forms of deception. The techniques used by third parties change frequently and may be difficult to detect for long periods of time. A significant cyber incident could impact production capability, harm our reputation and/or subject us to regulatory actions or litigation, any of which could materially affect our business, results of operations and financial condition. While we utilize a number of measures to prevent, detect and mitigate these threats, including employee education, monitoring of networks and systems, and maintenance of backup and protective systems, there is no guarantee such efforts will be successful in preventing a cyber incident.

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

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

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

Protecting our intellectual property rights is critical to our ability to compete and succeed as a company. GM has granted us an irrevocable, perpetual, royalty-free, worldwide license under a large number of U.S. and foreign patents and patent applications, as well as certain unpatented technology and know-how, to design, develop, manufacture, use and sell fully-automatic transmissions and H 40/50 EP electric hybrid-propulsion transit bus systems for use in certain vocational vehicles, defense vehicles and off-road products. With respect to the bulk of the intellectual property licensed to us, our license is exclusive with respect to the design, development, manufacture, use and sale of fully-automatic transmissions and H 40/50 EP electric hybrid-propulsion transit bus systems in vocational vehicles above certain weight rating thresholds, certain defense vehicles and certain off-road

Table of Contents

products. It is non-exclusive with respect to certain other products that are within the scope of the licensed patents or to which the licensed technology can be applied. We consider the patents and technology licensed under such license agreement, as a whole, to be critical to preserving our competitive position in the market. However, GM continues to own such patents and technology, and GM has the right, in the first instance, to control the maintenance, enforcement and defense of such patents and the prosecution of the licensed patent applications. In addition, our ability to sublicense our rights is limited.

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

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

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

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

As of December 31, 2018, approximately 59% of our U.S. employees, representing over 50% of our total employees, were represented by the UAW and are subject to a collective bargaining agreement. Our current collective bargaining agreement with UAW Local 933 is effective through November 2023.

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

In general, we consider our labor relations with all of our employees to be good. However, in the future we may be subject to labor unrest. If strikes, work stoppages or lock-outs at our facilities or at the facilities of our vendors or customers occur or continue for a long period of time, our business, results of operations and financial condition may be materially adversely affected.

Table of Contents

Our pension and other post-retirement benefits funding obligations could increase as a result of a variety of factors.

Our earnings may be positively or negatively impacted by the amount of income or expense recorded for our defined benefit pension plans and other post-retirement benefits (“OPEB”). Accounting principles generally accepted in the United States of America (“GAAP”) require that income or expense for defined benefit pension plans be calculated at the annual measurement date using actuarial assumptions and calculations. These calculations reflect certain assumptions, the most significant of which relate to the capital markets, interest rates, health care inflation rates and other economic conditions. Changes in key economic indicators can change these assumptions. These assumptions, along with the actual value of assets at the measurement date, will impact the calculation of pension expense for the year. Although GAAP pension expense and pension contributions are not directly related, the key economic indicators that affect GAAP pension expense also affect the amount of cash that we would contribute to our defined benefit pension plans. Because the values of these defined benefit pension plans’ assets have fluctuated and will fluctuate in response to changing market conditions, the amount of gains or losses that will be recognized in subsequent periods, the impact on the funded status of the defined benefit pension plans and the future minimum required contributions, if any, could have a material adverse effect on our business, results of operations and financial condition. The magnitude of such impact cannot be determined with certainty at this time. However, the effect of a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2018 defined benefit pension plans obligation of approximately \$20 million. Likewise, a one percentage point decrease in the effective interest rate for determining defined benefit pension plans contributions would result in an increase in the minimum required contributions for 2019 of approximately \$4 million. Similarly, a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2018 OPEB obligation of approximately \$13 million. As of December 31, 2018, the funded status of our defined benefit pension plans was \$19 million and the unfunded status of our OPEB plan was \$93 million.

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

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

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

Table of Contents

We manage the remediation of historical soil and groundwater contamination at our Indianapolis, Indiana facilities under an Agreed Order of Consent ("AOC") with the EPA. We recorded approximately \$14 million in 2015 for the estimated undiscounted environmental liabilities to be paid out over 30 years, which will be adjusted periodically as remediation efforts progress or as additional technical, regulatory or legal information becomes available. In 2016, we satisfied the financial assurance requirement under the AOC by securing a letter of credit in the amount of \$15 million. See Part I, Item 1, "Business — Environmental Compliance" and Part II, Item 8, NOTE 17, "Commitments and Contingencies" of this Annual Report on Form 10-K. There can be no assurances that future environmental remediation obligations will not have a material adverse effect on our results of operations and financial condition. In addition, we occasionally evaluate alternatives with respect to our facilities, including possible dispositions or closings. Investigations undertaken in connection with these activities may lead to discoveries of contamination that must be remediated, and closings of facilities may trigger remediation requirements that are not applicable to operating facilities. We may also face lawsuits brought by third parties that either allege property damage or personal injury as a result of, or seek reimbursement for costs associated with, such contamination.

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

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

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

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

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

Table of Contents

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

Pursuant to GAAP, we are required to assess our goodwill and indefinite-lived intangible assets to determine if they are impaired on an annual basis, or more often if events or changes in circumstances indicate that impairment may have occurred. Intangible assets with finite lives are amortized over the useful life and are reviewed for impairment on triggering events such as events or changes in circumstances indicating that an impairment may have occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill and the implied fair value of the goodwill or the carrying value of the intangible assets and the fair value of the intangible assets in the period the determination is made. Disruptions to our business, end market conditions, protracted economic weakness and unexpected significant declines in operating results may result in charges for goodwill and other asset impairments. See NOTE 2 “Summary of Significant Accounting Policies” and NOTE 6 “Goodwill and Other Intangible Assets” of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional details.

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, a significant change in the projected future cash flows generated by 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 and could have a material adverse effect on the results of our operations. See NOTE 2 “Summary of Significant Accounting Policies” and NOTE 5 “Property, Plant and Equipment” of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional details.

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

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

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

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

Table of Contents

Risks Related to Our Indebtedness

Our substantial indebtedness could adversely affect our financial health, restrict our activities and affect our ability to meet our obligations. We have a significant amount of indebtedness. As of December 31, 2018, we had total indebtedness of \$2,548 million and we would have been able to borrow an additional \$533 million, net of \$17 million of outstanding letters of credit, under the revolving portion of Allison Transmission Inc.'s ("ATI"), the Company's wholly-owned subsidiary, Senior Secured Credit Facility due 2021 ("Revolving Credit Facility"). As of December 31, 2018, we had no outstanding borrowings against the Revolving Credit Facility. At December 31, 2018, \$1,148 million of our total indebtedness was associated with ATI's Senior Secured Credit Facility Term B-3 Loan due 2022 ("Term B-3 Loan", and together with the Revolving Credit Facility, the "Senior Secured Credit Facility"), \$1,000 million of our total indebtedness was associated with ATI's 5.0% Senior Notes due September 2024 ("5.0% Senior Notes") and \$400 million of our total indebtedness was associated with ATI's 4.75% Senior Notes due October 2027 ("4.75% Senior Notes"). For a complete description of the terms of the Senior Secured Credit Facility, the 5.0% Senior Notes and the 4.75% Senior Notes, please see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" of this Annual Report on Form 10-K. Our substantial indebtedness could have important consequences. For example, it could:

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

In addition, the Revolving Credit Facility contains a maximum total senior secured leverage ratio. The Senior Secured Credit Facility, the indenture governing the 5.0% Senior Notes and the indenture governing the 4.75% Senior Notes also contain other negative and affirmative covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with any of the covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness.

Further, the Term B-3 Loan bears interest at fluctuating interest rates, primarily based on London Interbank Offered Rate ("LIBOR"). In July 2017, the Financial Conduct Authority, a regulator of financial services firms in the United Kingdom, announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. We are unable to predict the effect of any changes, any establishment of alternative reference rates or any other reforms to LIBOR or any replacement of LIBOR that may be enacted in the United Kingdom or elsewhere. Such changes, reforms or replacements relating to LIBOR could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, derivatives and other financial obligations or extensions of credit held by us or on our overall financial condition or results of operations.

Table of Contents

Our ability to pay regular dividends on our common stock is subject to the discretion of our Board of Directors and may be limited by our structure and statutory restrictions and restrictions imposed by the Senior Secured Credit Facility, the indenture governing the 5.0% Senior Notes and the indenture governing the 4.75% Senior Notes as well as any future agreements.

Our Board of Directors has maintained a quarterly dividend of \$0.15 per share of common stock since the fourth quarter of 2014. However, the payment of future dividends will be at the discretion of our Board of Directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that our Board of Directors deems relevant. The Senior Secured Credit Facility, the indenture governing the 5.0% Senior Notes and the indenture governing the 4.75% Senior Notes also effectively limit our ability to pay dividends. As a consequence of these limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Accordingly, our stockholders may have to sell some or all of their common stock after price appreciation in order to generate cash flow from their investment. Our stockholders may not receive a gain on their investment when they sell their common stock and they may lose the entire amount of the investment. Additionally, any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our common stock.

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

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

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

If we fail to pay principal, premium, if any, and interest on our indebtedness or to otherwise comply with the covenants in the instruments governing our indebtedness, we may be forced into bankruptcy or liquidation by our lenders.

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

We and our subsidiaries may be able to incur additional indebtedness in the future because the terms of our indebtedness do not fully prohibit us or our subsidiaries from doing so. Subject to covenant compliance and certain conditions, our indebtedness permits additional borrowing, including total borrowing up to \$533 million under the Revolving Credit Facility. If new debt is added to our current debt levels and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our world headquarters, which we own, is located at One Allison Way, Indianapolis, Indiana 46222. As of December 31, 2018, we have a total of 16 manufacturing and certain other facilities in seven countries. The following table sets forth certain information regarding these facilities.

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

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

ITEM 3. LEGAL PROCEEDINGS

We are subject to various contingencies, including routine legal proceedings and claims arising out of the normal course of business. These proceedings primarily involve commercial claims, product liability claims, personal injury claims and workers' compensation claims. The outcome of these lawsuits, legal proceedings and claims cannot be predicted with certainty. Nevertheless, we believe the outcome of any of these currently existing proceedings, even if determined adversely, would not have a material adverse effect on our financial condition or results of operations. See also NOTE 17, "Commitments and Contingencies" in Part II, Item 8, of this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II.

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

Our common stock is listed on the NYSE under the symbol “ALSN.”

Holders

As of February 11, 2019, there were approximately 68,300 stockholders of record of our common stock, which includes the actual number of holders registered on the books of the Company and holders of shares in “street name” or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depositories.

Unregistered Sales of Equity Securities

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

Issuer Purchases of Equity Securities

On November 14, 2016, our Board of Directors authorized us to repurchase up to \$1,000 million of our common stock pursuant to a stock repurchase program (“Repurchase Program”). The Board of Directors approved increases of \$500 million on each of November 8, 2017 and July 30, 2018 bringing the authorized total repurchases under the Repurchase Program to \$2,000 million. The terms of the Repurchase Program provide that we may repurchase shares of our common stock, from time to time depending on market conditions and corporate needs, in the open market or through privately negotiated transactions in accordance with Rule 10b-18 of the Exchange Act. The Repurchase Program does not have an expiration date.

The following table sets forth information related to our repurchase of our common stock on a monthly basis in the three months ended December 31, 2018:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under Programs ⁽¹⁾
October 1 – October 31, 2018	972,033	\$ 45.05	972,033	\$ 553,926,433
November 1 – November 30, 2018	83,969	\$ 46.33	783,969	\$ 517,604,485
December 1 – December 31, 2018	1,672,871	\$ 43.38	1,672,871	\$ 445,031,067
Total	3,428,873		3,428,873	

⁽¹⁾ These values reflect repurchases made under the Repurchase Program.

Issuances Under Equity Compensation Plans

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

Table of Contents

Comparative Stock Performance Graph

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

Set forth below is a graph comparing the total cumulative returns of ALSN, the S&P 500 Index and an index of peer companies selected by us. Our peer group includes Donaldson Company, Inc., Graco Inc., Roper Technologies, Inc., Gentex Corporation, Rockwell Automation, Inc. and Sensata Technologies Holding N.V. The graph assumes \$100 was invested on December 31, 2013 in our common stock and each of the indices and that all dividends, if any, are reinvested.

	As of December 31, 2013	As of December 31, 2014	As of December 31, 2015	As of December 31, 2016	As of December 31, 2017	As of December 31, 2018
Allison Transmission Holdings, Inc.	\$ 100.00	\$ 124.83	\$ 97.27	\$ 129.44	\$ 168.21	\$ 173.83
S&P 500 Index	100.00	113.69	115.26	129.05	157.22	150.33
Peer Group	100.00	107.07	105.94	119.10	165.84	151.86

Table of Contents

ITEM 6. Selected Financial Data

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

(in millions, except per share data)	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Consolidated Statements of Operations:					
Net sales	\$ 2,713	\$ 2,262	\$ 1,840	\$ 1,986	\$ 2,127
Gross profit	1,422	1,131	864	934	976
Operating expenses:					
Selling, general and administrative	364	342	324	317	345
Engineering — research and development	131	105	88	93	104
Loss associated with impairment of long-lived assets	4	32	—	1	15
Trade name impairment	—	—	—	80	—
Environmental remediation	—	—	—	14	—
Total operating expenses	499	479	412	505	464
Operating income	923	652	452	429	512
Other income (expense), net:					
Interest expense, net	(121)	(103)	(101)	(114)	(138)
Expenses related to long-term debt refinancing	—	—	(12)	(26)	—
Other income (expense), net	3	(22)	2	—	(6)
Total other expense, net	(118)	(125)	(111)	(140)	(144)
Income before income taxes	805	527	341	289	368
Income tax expense	(166)	(23)	(126)	(107)	(139)
Net income	\$ 639	\$ 504	\$ 215	\$ 182	\$ 229
Earnings Per Share Data:					
Basic earnings per share	\$ 4.81	\$ 3.38	\$ 1.28	\$ 1.03	\$ 1.27
Weighted-average shares outstanding	133	149	168	176	180
Diluted earnings per share	\$ 4.78	\$ 3.36	\$ 1.27	\$ 1.03	\$ 1.25
Diluted weighted-average shares outstanding	134	150	169	177	182
Dividends declared per common share	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.51
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 231	\$ 199	\$ 205	\$ 252	\$ 263
Total assets	4,237	4,205	4,219	4,408	4,656
Total debt	2,523	2,546	2,159	2,377	2,491
Stockholders' equity	659	689	1,081	1,189	1,398

Table of Contents

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

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

Overview

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 2,900 employees and 12 different transmission product lines. Although approximately 77% of revenues were generated in North America in 2018, we have a global presence by serving customers in Europe, Asia, South America and Africa. We serve customers through an independent network of approximately 1,400 independent distributor and dealer locations worldwide.

Trends Impacting Our Business

Our net sales are driven by commercial vehicle production, which tends to be highly correlated to macroeconomic conditions. During 2019, we expect lower demand in the North America Off-Highway and Service Parts, Support Equipment and Other end markets, partially offset by increased demand in the North America On-Highway end market, price increases on certain products and continued execution of our growth initiatives.

Full Year 2018 and 2017 Net Sales by End Market (in millions)

End Market	2018 Net Sales	2017 Net Sales	% Variance	
North America On-Highway	\$ 1,317	\$ 1,177	12	%
North America Off-Highway	93	51	82	%
Defense	158	117	35	%
Outside North America On-Highway	383	344	11	%
Outside North America Off-Highway	129	41	215	%
Service Parts, Support Equipment and Other	633	532	19	%
Total Net Sales	\$ 2,713	\$ 2,262	20	%

* North America On-Highway end market net sales are inclusive of net sales for North America Electric Hybrid-Propulsion Systems for Transit Bus

North America On-Highway end market net sales were up 12% for the year ended December 31, 2018 compared to the year ended December 31, 2017, principally driven by higher demand for Rugged Duty Series and Highway Series models.

North America Off-Highway end market net sales were up \$42 million for the year ended December 31, 2018 compared to the year ended December 31, 2017, principally driven by higher demand from hydraulic fracturing applications.

Defense end market net sales were up 35% for the year ended December 31, 2018 compared to the year ended December 31, 2017, principally driven by higher Tracked and Wheeled demand.

Outside North America On-Highway end market net sales were up 11% for the year ended December 31, 2018 compared to the year ended December 31, 2017, principally driven by higher demand in Asia and Europe.

Table of Contents

Outside North America Off-Highway end market net sales were up \$88 million for the year ended December 31, 2018 compared to the year ended December 31, 2017, principally driven by higher demand in the energy, mining and construction sectors.

Service Parts, Support Equipment and Other end market net sales were up 19% for the year ended December 31, 2018 compared to the year ended December 31, 2017, principally driven by higher demand for global service parts and support equipment.

Key Components of our Results of Operations

Net sales

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

Cost of sales

Our primary components of cost of sales are purchased parts, the overhead expense related to our manufacturing operations and direct labor associated with the manufacture and assembly of transmissions and parts. For the year ended December 31, 2018, direct material costs were approximately 71%, overhead costs were approximately 23% and direct labor costs were approximately 6% of total cost of sales. We are subject to changes in our cost of sales caused by movements in underlying commodity prices. We seek to hedge against this risk by using long-term supply agreements ("LTSA's"). See Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk—Commodity Price Risk" included in this Annual Report on Form 10-K.

Selling, general and administrative

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.

Table of Contents

Non-GAAP Financial Measures

We use Adjusted Earnings before Interest, Taxes, Depreciation, and Amortization (“EBITDA”) and Adjusted EBITDA as a percent of net sales to measure our operating profitability. We believe that Adjusted EBITDA and Adjusted EBITDA as a percent of net sales provide management, investors and creditors with useful measures of the operational results of our business and increase the period-to-period comparability of our operating profitability and comparability with other companies. Adjusted EBITDA as a percent of net sales is also used in the calculation of management’s incentive compensation program. The most directly comparable U.S. generally accepted accounting principles (“GAAP”) measure to Adjusted EBITDA and Adjusted EBITDA as a percent of net sales is Net income and Net income as a percent of net sales, respectively. Adjusted EBITDA is calculated as earnings before interest expense, income tax expense, amortization of intangible assets, depreciation of property, plant and equipment and other adjustments as defined by Allison Transmission, Inc.’s (“ATI”), our wholly-owned subsidiary, Term B-3 Loan due 2022 (“Term B-3 Loan”). Adjusted EBITDA as a percent of net sales is calculated as Adjusted EBITDA divided by net sales.

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

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

The following is a reconciliation of Net income and Net income as a percent of net sales to Adjusted EBITDA and Adjusted EBITDA as a percent of net sales and a reconciliation of Net cash provided by operating activities to Adjusted free cash flow:

(unaudited, in millions)	For the years ended December 31,		
	2018	2017	2016
Net income (GAAP)	\$ 639	\$ 504	\$ 215
plus:			
Income tax expense	166	23	126
Interest expense, net	121	103	101
Amortization of intangible assets	87	90	92
Depreciation of property, plant and equipment	77	80	84
UAW Local 933 retirement incentive (a)	15	—	—
Stock-based compensation expense (b)	13	12	9
Loss associated with impairment of long-lived assets (c)	4	32	—
Technology-related investment expense (d)	3	16	1
Unrealized loss on foreign exchange (e)	3	—	1
UAW Local 933 contract signing bonus (f)	—	10	—
Dual power inverter module units extended coverage (g)	—	(2)	1
Expenses related to long-term debt refinancing (h)	—	—	12
Stockholder activism expenses (i)	—	—	4
Unrealized gain on commodity hedge contracts (j)	—	—	(2)
Adjusted EBITDA (Non-GAAP)	\$ 1,128	\$ 868	\$ 644
Net sales (GAAP)	\$ 2,713	\$ 2,262	\$ 1,840
Net income as a percent of net sales (GAAP)	23.6 %	22.3 %	11.7 %
Adjusted EBITDA as a percent of net sales (Non-GAAP)	41.6 %	38.4 %	35.0 %
Net cash provided by operating activities (GAAP)	\$ 837	\$ 658	\$ 591
(Deductions) or additions to reconcile to Adjusted free cash flow:			
Additions of long-lived assets	(100)	(91)	(71)
Excess tax benefit from stock-based compensation (k)	—	—	6
Stockholder activism expenses (i)	—	—	4
Adjusted free cash flow (Non-GAAP)	\$ 737	\$ 567	\$ 530

(a) Represents a charge (recorded in Cost of sales) related to a retirement incentive program for certain employees represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") pursuant to the UAW Local 933 collective bargaining agreement effective through November 2023.

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

(c) Represents a charge associated with the impairment of long-lived assets related to the production of the TC10 transmission.

(d) Represents a charge (recorded in Other income (expense), net) for investments in co-development agreements to expand our position in transmission technologies.

(e) Represents losses (recorded in Other income (expense), net) on intercompany financing transactions related to investments in plant assets for our India facility.

(f) Represents a bonus (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development) to eligible employees recorded in the fourth quarter of 2017 as a result of UAW Local 933 represented employees ratifying a six-year collective bargaining agreement effective through November 2023.

(g) Represents an adjustment (recorded in Selling, general and administrative) associated with the Dual Power Inverter Module ("DPIM") extended coverage program liability. The DPIM liability will continue to be reviewed for any changes in estimates as additional claims data and field information become available.

(h) Represents expenses related to the refinancing of the Senior Secured Credit Facility in the third quarter of 2016.

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

- (i) Represents expenses (recorded in Selling, general and administrative) directly associated with stockholder activism activity including the notice, and subsequent withdrawal, of director nomination and governance proposals by Ashe Capital Management, LP.
- (j) Represents unrealized gains (recorded in Other income (expense), net) on the mark-to-market of our commodity hedge contracts.
- (k) Represents the amount of tax benefit (recorded in Income tax expense) related to stock-based compensation expense adjusted from cash flows from operating activities to cash flows from financing activities.

38

Table of Contents

Results of Operations

The following tables set forth certain financial information for the years ended December 31, 2018 and 2017 and for the years ended December 31, 2017 and 2016. The following tables and discussion should be read in conjunction with the information contained in our consolidated financial statements and the notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K.

Comparison of years ended December 31, 2018 and 2017

(dollars in millions)	Years ended December 31,					
	2018	%		2017	%	
		of net sales	%		of net sales	%
Net sales	\$2,713	100	%	\$2,262	100	%
Cost of sales	1,291	48		1,131	50	
Gross profit	1,422	52		1,131	50	
Operating expenses:						
Selling, general and administrative	364	13		342	15	
Engineering — research and development	131	5		105	5	
Loss associated with impairment of long-lived assets	4	—		32	1	
Total operating expenses	499	18		479	21	
Operating income	923	34		652	29	
Other expense, net:						
Interest expense, net	(121)	(4))	(103)	(5))
Other income (expense), net	3	—		(22)	(1))
Total other expense, net	(118)	(4))	(125)	(6))
Income before income taxes	805	30		527	23	
Income tax expense	(166)	(6))	(23)	(1))
Net income	\$639	24	%	\$504	22	%

Net sales

Net sales for the year ended December 31, 2018 were \$2,713 million compared to \$2,262 million for the year ended December 31, 2017, an increase of 20%. The increase was principally driven by a \$140 million, or 12%, increase in net sales in the North America On-Highway end market principally driven by higher demand for Rugged Duty Series and Highway Series models, a \$101 million, or 19%, increase in net sales in the Service Parts, Support Equipment and Other end market principally driven by higher demand for global service parts and support equipment, an \$88 million increase in net sales in the Outside North America Off-Highway end market principally driven by higher demand in the energy, mining and construction sectors, a \$42 million increase in net sales in the North America Off-Highway end market principally driven by higher demand from hydraulic fracturing applications, a \$41 million, or 35%, increase in net sales in the Defense end market principally driven by higher Tracked and Wheeled demand, and a \$39 million, or 11%, increase in net sales in the Outside North America On-Highway end market principally driven by higher demand in Asia and Europe. See “Trends Impacting Our Business” above for additional information on net sales by end market.

Cost of sales

Cost of sales for the year ended December 31, 2018 was \$1,291 million compared to \$1,131 million for the year ended December 31, 2017, an increase of 14%. The increase was principally driven by increased direct material and manufacturing expenses commensurate with increased net sales, \$15 million of expenses related to a retirement incentive program for certain UAW Local 933 employees and unfavorable material costs, partially offset by expenses of \$9 million associated with the ratification of a new collective bargaining agreement with UAW Local 933 in 2017 that did not recur in 2018.

Table of Contents

Gross profit

Gross profit for the year ended December 31, 2018 was \$1,422 million compared to \$1,131 million for the year ended December 31, 2017, an increase of 26%. The increase was principally driven by \$282 million related to increased net sales, \$32 million of price increases on certain products and expenses of \$9 million associated with the ratification of a new collective bargaining agreement with UAW Local 933 in 2017 that did not recur in 2018, partially offset by \$16 million of higher manufacturing expenses commensurate with increased net sales, \$15 million of expenses related to a retirement incentive program for certain UAW Local 933 employees and \$2 million of unfavorable material costs. Gross profit as a percent of net sales for the year ended December 31, 2018 increased 240 basis points compared to the same period in 2017 principally driven by increased net sales, price increases on certain products and expenses associated with the ratification of the new collective bargaining agreement in 2017 that did not recur in 2018, partially offset by expenses related to the retirement incentive program and unfavorable material costs.

Selling, general and administrative

Selling, general and administrative expenses for the year ended December 31, 2018 were \$364 million compared to \$342 million for the year ended December 31, 2017, an increase of 6%. The increase was principally driven by \$20 million of higher product warranty expense commensurate with increased net sales and increased commercial activities spending.

Engineering — research and development

Engineering expenses for the year ended December 31, 2018 were \$131 million compared to \$105 million for the year ended December 31, 2017, an increase of 25%. The increase was principally driven by increased product initiatives spending.

Loss associated with impairment of long-lived assets

During the fourth quarter of 2018 and 2017, we recorded approximately \$4 million and \$32 million, respectively, of losses associated with the impairment of certain of our long-lived assets related to the production of the TC10 transmission. See NOTE 2 “Summary of Significant Accounting Policies” of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional details.

Interest expense, net

Interest expense, net for the year ended December 31, 2018 was \$121 million compared to \$103 million for the year ended December 31, 2017, an increase of 17%. The increase was principally driven by \$14 million of higher interest expense for ATI's 4.75% Senior Notes due October 2027 (“4.75% Senior Notes”) issued in September 2017 and \$6 million of higher interest expense on ATI's Term B-3 Loan principally driven by higher interest rates, partially offset by interest expense on revolving loan balances in 2017 that did not recur in 2018.

Other income (expense), net

Other income (expense), net for the year ended December 31, 2018 was \$3 million compared to \$(22) million for the year ended December 31, 2017. The change was principally driven by \$13 million of lower technology-related investments expense for investments in co-development agreements to expand our position in transmission technologies, \$12 million of credits related to post-retirement benefit plan amendments and \$4 million of favorable foreign exchange, partially offset by a \$3 million decrease in foreign exchange losses on intercompany financing.

Income tax expense

Income tax expense for the year ended December 31, 2018 was \$166 million resulting in an effective tax rate of 21%, compared to \$23 million of income tax expense and an effective tax rate of 4% for the year ended December 31, 2017. The change in the effective tax rate was a result of the U.S. Tax Cuts and Jobs Act enacted into law in 2017 and was principally driven by a one time \$157 million tax benefit resulting from a decrease in deferred tax liabilities in 2017, partially offset by \$5 million of tax expense related to the deemed repatriation of accumulated foreign earnings and profits in 2017 as a result of the U.S. Tax Cuts and Jobs Act.

Table of Contents

Comparison of years ended December 31, 2017 and 2016

(dollars in millions)	Years ended December 31,			
	2017	% of net sales	2016	% of net sales
Net sales	\$2,262	100 %	\$1,840	100 %
Cost of sales	1,131	50	976	53
Gross profit	1,131	50	864	47
Operating expenses:				
Selling, general and administrative	342	15	324	17
Engineering — research and development	105	5	88	5
Loss associated with impairment of long-lived assets	32	1	—	—
Total operating expenses	479	21	412	22
Operating income	652	29	452	25
Other expense, net:				
Interest expense, net	(103)	(5)	(101)	(5)
Expenses related to long-term debt refinancing	—	—	(12)	(1)
Other income (expense), net	(22)	(1)	2	—
Total other expense, net	(125)	(6)	(111)	(6)
Income before income taxes	527	23	341	19
Income tax expense	(23)	(1)	(126)	(7)
Net income	\$504	22 %	\$215	12 %

Net sales

Net sales for the year ended December 31, 2017 were \$2,262 million compared to \$1,840 million for the year ended December 31, 2016, an increase of 23%. The increase was principally driven by a \$154 million, or 41%, increase in net sales in the Service Parts, Support Equipment and Other end market principally driven by higher demand for North America service parts and global support equipment, a \$154 million, or 15%, increase in net sales in the North America On-Highway end market principally driven by higher demand for Rugged Duty Series models, a \$44 million increase in net sales in the North America Off-Highway end market principally driven by higher demand from hydraulic fracturing applications, a \$39 million, or 13%, increase in net sales in the Outside North America On-Highway end market principally driven by higher demand in Asia, Europe and South America, a \$29 million increase in net sales in the Outside North America Off-Highway end market principally driven by improved demand in the mining and energy sectors and a \$2 million, or 2%, increase in net sales in the Defense end market principally driven by higher demand.

Cost of sales

Cost of sales for the year ended December 31, 2017 were \$1,131 million compared to \$976 million for the year ended December 31, 2016, an increase of 16%. The increase was principally driven by increased material cost and manufacturing expenses commensurate with increased net sales, \$9 million associated with the ratification of a new collective bargaining agreement with UAW Local 933 and \$6 million of higher incentive compensation expense.

Gross profit

Gross profit for the year ended December 31, 2017 was \$1,131 million compared to \$864 million for the year ended December 31, 2016, an increase of 31%. The increase was principally driven by \$260 million related to increased net sales and \$38 million of price increases on certain products, partially offset by \$9 million of expenses associated with the ratification of a new collective bargaining agreement with UAW Local 933, \$9 million of higher manufacturing expense commensurate with increased net sales, \$6 million of higher incentive compensation expense and \$7 million of unfavorable material cost. Gross profit as a percent of net sales for the year ended December 31, 2017 increased 3% compared to the same period in 2016 principally driven by favorable sales volume and price increases on certain products, partially offset by expense associated with the ratification of a new collective bargaining agreement, higher incentive compensation expense and unfavorable material cost.

Table of Contents

Selling, general and administrative

Selling, general and administrative expenses for the year ended December 31, 2017 were \$342 million compared to \$324 million for the year ended December 31, 2016, an increase of 6%. The increase was principally driven by increased commercial activities spending, \$6 million of higher incentive compensation expense, \$5 million of unfavorable product warranty adjustments and \$2 million of higher stock-based compensation expense, partially offset by \$4 million of stockholder activism expenses in 2016 that did not recur in 2017 and \$4 million of favorable DPIM adjustments.

Engineering — research and development

Engineering expenses for the year ended December 31, 2017 were \$105 million compared to \$88 million for the year ended December 31, 2016, an increase of 19%. The increase was principally driven by increased product initiatives spending and \$3 million of higher incentive compensation expense.

Loss associated with impairment of long-lived assets

During the fourth quarter of 2017, we recorded approximately \$32 million of losses associated with impairment of certain of our long-lived assets related to the production of the TC10 transmission. See NOTE 5 “Property, Plant and Equipment” of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional details.

Interest expense, net

Interest expense, net for the year ended December 31, 2017 was \$103 million compared to \$101 million for the year ended December 31, 2016, an increase of 2%. The increase was principally driven by \$36 million of higher interest expense on ATI’s 5.0% Senior Notes due September 2024 (“5.0% Senior Notes”) issued in September 2016, \$8 million of higher interest expense for our interest rate derivatives that became effective in August 2016, \$5 million of interest expense on ATI’s 4.75% Senior Notes issued in September 2017 and \$4 million of interest expense on revolving loan balances in 2017, partially offset by \$35 million lower interest expense on ATI’s Term B-3 Loan principally due to repayment of \$1,200 million of principal in the third quarter of 2016 and \$16 million of favorable mark-to-market adjustments for our interest rate derivatives.

Expenses related to long-term debt refinancing

In September 2016, we refinanced our Senior Secured Credit Facility, resulting in expenses of \$12 million for the year ended December 31, 2016.

Other (expense) income, net

Other expense, net for the year ended December 31, 2017 was \$22 million compared to other income, net of \$2 million for the year ended December 31, 2016. The change was principally driven by a \$15 million increase in technology-related investments expense, \$5 million of unfavorable vendor settlements in 2017 and \$4 million of higher foreign exchange losses on intercompany financing.

Income tax expense

Income tax expense for the year ended December 31, 2017 was \$23 million compared to \$126 million for the year ended December 31, 2016, resulting in an effective tax rate of 4% and 37% for years ended December 31, 2017 and December 31, 2016, respectively. The decrease was a result of the U.S. Tax Cuts and Jobs Act enacted into law in 2017 and was principally driven by a \$157 million decrease in net deferred tax liabilities to reflect the decrease in the corporate income tax rate from 35% to 21%, partially offset by a \$5 million increase in tax liabilities related to the deemed repatriation of accumulated foreign earnings and profits as a result of the U.S. Tax Cuts and Jobs Act.

Table of Contents

Liquidity and Capital Resources

We generate cash primarily from operations to fund our operating, investing and financing activities. Our principal uses of cash are capital expenditures, debt service, dividends on common stock, operating expenses, stock repurchases, strategic growth initiatives, including acquisitions, and working capital needs. We had total available cash and cash equivalents of \$231 million and \$199 million as of December 31, 2018 and 2017, respectively. Of the available cash and cash equivalents, approximately \$120 million and \$149 million were deposited in operating accounts while approximately \$111 million and \$50 million were invested in U.S. government backed securities as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, the total of cash and cash equivalents held by foreign subsidiaries was \$59 million, the majority of which was located in China and Europe. 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 that local liquidity restrictions will preclude us from funding our targeted expectations or operating needs with local resources.

We have not recognized any deferred tax liabilities associated with earnings in foreign subsidiaries, except for our subsidiaries located in China and Hong Kong, as they are intended to be permanently reinvested and used to support foreign operations. We have recorded a deferred tax liability of \$2 million for the tax liability associated with the remittance of previously taxed income and unremitted earnings for our subsidiaries located in China and Hong Kong. The U.S. Tax Cuts and Jobs Act requirement of a one-time repatriation tax on foreign earnings and profits resulted in us recording a \$6 million liability for the deemed repatriation to be paid to the U.S. Government in 2017. In the future, the U.S. Tax Cuts and Jobs Act provides for tax free repatriations of earnings and profits generated by foreign subsidiaries through a 100% dividends received deduction. The remaining deferred tax liabilities, if recorded, related to unremitted earnings that are indefinitely reinvested are not material.

Our liquidity requirements are significant, primarily due to our debt service requirements. As of December 31, 2018, we had \$1,148 million of indebtedness associated with ATI's Term B-3 Loan, \$1,000 million of indebtedness associated with ATI's 5.0% Senior Notes and \$400 million of indebtedness associated with ATI's 4.75% Senior Notes. The minimum required quarterly principal payment on ATI's Term B-3 Loan through its maturity date of September 2022 is \$3 million; however, we made voluntary prepayments of the required quarterly principal payments of \$25 million in May 2018. There are no required quarterly principal payments on ATI's 5.0% Senior Notes and 4.75% Senior Notes.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and growth initiatives, including acquisitions, 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 net principal payments of \$28 million, \$427 million and \$215 million on our Senior Secured Credit Facility during the years ended December 31, 2018, 2017 and 2016, respectively.

The Senior Secured Credit Facility provides for a \$550 million Revolving Credit Facility, net of an allowance for up to \$75 million in outstanding letters of credit commitments. As of December 31, 2018, we had \$533 million available under the Revolving Credit Facility, net of \$17 million in letters of credit. As of December 31, 2018, we had no amounts outstanding under the Revolving Credit Facility. If we have commitments outstanding on the Revolving Credit Facility at the end of a fiscal quarter, the Senior Secured Credit Facility requires us to maintain a specified maximum total senior secured leverage ratio of 5.50x. Additionally, within the terms of the Senior Secured Credit Facility, a senior secured leverage ratio at or below 4.00x results in the elimination of excess cash flow payments on the Senior Secured Credit Facility for the applicable year. As of December 31, 2018, our senior secured leverage ratio was 0.81x. 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 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. These reductions remain in effect as long as we achieve a total leverage ratio at or below the related threshold. As of December 31, 2018, our total leverage ratio was 2.05x.

Table of Contents

In addition, the Senior Secured Credit Facility includes, among other things, customary restrictions (subject to certain exceptions) on our ability to incur certain indebtedness, grant certain liens, make certain investments, declare or pay certain dividends, and repurchase shares of our common stock. The indentures governing the 5.0% Senior Notes and 4.75% Senior Notes contain negative covenants restricting or limiting our ability to, among other things, incur or guarantee additional indebtedness, incur liens, pay dividends on, redeem or repurchase our capital stock, make certain investments, permit payment or dividend restrictions on certain of our subsidiaries, sell assets, engage in certain transactions with affiliates, and consolidate or merge or sell all or substantially all of our assets. As of December 31, 2018, we are in compliance with all covenants under the Senior Secured Credit Facility and indentures governing the 5.0% Senior Notes and 4.75% Senior Notes.

Our credit ratings are reviewed by Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). Moody's rates our corporate credit at 'Ba2', Term B-3 Loan at 'Baa3', 5.0% Senior Notes at 'Ba3' and 4.75% Senior Notes at 'Ba3'. Fitch rates our corporate credit at 'BB', Term B-3 Loan at 'BB+', 5.0% Senior Notes at 'BB' and 4.75% Senior Notes at 'BB'.

On November 14, 2016, our Board of Directors authorized us to repurchase up to \$1,000 million of our common stock pursuant to a stock repurchase program (the "Repurchase Program"). On November 8, 2017, our Board of Directors increased the authorization by \$500 million and on July 30, 2018 our Board of Directors further increased the authorization by \$500 million, bringing the total amount authorized under the Repurchase Program to \$2,000 million. During 2018, we repurchased approximately \$609 million of our common stock under the Repurchase Program. All of the repurchase transactions during 2018 were settled in cash during the same period. As of December 31, 2018, we had approximately \$445 million available under the Repurchase Program.

The following table shows our sources and uses of funds for the years ended December 31, 2018, 2017 and 2016 (in millions):

Statement of Cash Flows Data	Years ended		
	December 31,		
	2018	2017	2016
Cash flows provided by operating activities	\$837	\$658	\$591
Cash flows used for investing activities	(103)	(94)	(72)
Cash flows used for financing activities	(700)	(574)	(564)

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

Cash provided by operating activities

Operating activities for the year ended December 31, 2018 generated \$837 million of cash compared to \$658 million for the year ended December 31, 2017. The increase was principally driven by increased gross profit, decreased defined benefit pension plans funding payments and decreased cash interest expense, partially offset by higher operating working capital requirements, increased product initiatives spending, increased incentive compensation payments and increased cash income taxes.

Operating activities for the year ended December 31, 2017 generated \$658 million of cash compared to \$591 million for the year ended December 31, 2016. The increase was principally driven by increased gross profit, higher sales allowances and higher deferred revenue, partially offset by increased cash income taxes, higher inventories, increased cash interest expense, increased pension funding payments and increased incentive compensation payments.

Cash used for investing activities

Investing activities for the year ended December 31, 2018 used \$103 million of cash compared to \$94 million for the year ended December 31, 2017. The increase was principally driven by an increase of \$9 million in capital expenditures primarily due to spending related to investments in productivity and replacement programs.

Table of Contents

Investing activities for the year ended December 31, 2017 used \$94 million of cash compared to \$72 million for the year ended December 31, 2016. The increase was principally driven by an increase of \$20 million in capital expenditures and an increase of \$2 million in technology-related initiatives. The increase in capital expenditures was principally driven by spending related to investments in productivity and replacement programs and higher product initiatives spending.

Cash used for financing activities

Financing activities for the year ended December 31, 2018 used \$700 million of cash compared to \$574 million for the year ended December 31, 2017. The increase was principally driven by \$400 million of net debt borrowings in 2017 that did not recur in 2018 and \$16 million of increased payments on long-term debt, partially offset by \$276 million of decreased stock repurchases, \$9 million of decreased dividend payments and \$5 million of lower debt financing fees.

Financing activities for the year ended December 31, 2017 used \$574 million of cash compared to \$564 million for the year ended December 31, 2016. The increase was principally driven by \$629 million of increased repurchases of common stock, \$6 million of 2016 excess tax benefit from stock-based compensation and \$5 million of decreased proceeds from common stock issuance in connection with stock option exercises, partially offset by \$603 million of increased net debt borrowings, \$15 million of lower debt financing fees and \$11 million of decreased dividend payments.

Contractual Obligations, Contingent Liabilities and Commitments

The following table summarizes our contractual obligations as of December 31, 2018 (dollars in millions):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior Secured Credit Facility(1)	\$1,330	\$ 49	\$ 117	\$1,164	\$ —
5.0% Senior Notes(2)	1,287	50	100	100	1,037
4.75% Senior Notes(3)	568	19	38	38	473
Operating leases	11	4	5	2	—
Pension & OPEB liabilities(4)	21	3	8	10	see (4) below
Total(5)	\$3,217	\$ 125	\$268	\$1,314	\$ 1,510

Senior Secured Credit Facility includes principal payments and estimated interest payments. Interest on the Term B-3 Loan is equal to (1) the London Interbank Offered Rate ("LIBOR") plus 1.75%. For the purposes of this table the rate has been calculated using LIBOR as of December 31, 2018, resulting in an applied rate of 4.26%. Actual payments will vary.

(2) 5.0% Senior Notes include principal and interest payments based on a fixed interest rate of 5.00%.

(3) 4.75% Senior Notes include principal and interest payments based on a fixed interest rate of 4.75%.

Estimated pension funding and post-retirement benefit payments are based on an increasing discount rate and effective interest rate for funding purposes between 4.0% - 4.8%. Pension funding and post-retirement benefit payments are excluded from the table beyond year (4) 5, though we expect funding and payments to continue beyond year 5. See NOTE 14, "Employee Benefit Plans" of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K for the funding status of our pension plans and other post-retirement benefit plan as of December 31, 2018.

(5) Defense price reduction reserve, estimated warranty obligations and sales allowance programs, which total \$56 million, \$66 million and \$39 million, respectively, as of December 31, 2018 have been excluded from this table as timing of any payments are uncertain.

Table of Contents

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 million to \$8 million per year for each of the prior three fiscal years. Under terms of certain previous U.S. government contracts, there were 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. Given our current price reduction reserve for government contracts, a 10% adjustment in our price reduction reserve would have affected our earnings by approximately \$6 million per year for each of the prior three fiscal years. Beginning in 2014, all of our contracts with the U.S. government are firm fixed price contracts, which do not contain price reduction clauses and provisions.

Further information is provided in NOTE 2 “Summary of Significant Accounting Policies” of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K.

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 do not aggregate any components into our reporting unit. 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 a reporting unit’s goodwill exceeds its carrying value of net assets, then we would record an impairment loss equal to the difference.

A 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.

A 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.

Table of Contents

Goodwill impairment testing for 2018 was performed using the Step 0 analysis by assessing certain qualitative trends and factors. These trends and factors were compared to, and based on, the assumptions used in prior years. After reviewing the various qualitative factors mentioned above, our 2018 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 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. 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. After reviewing the various qualitative factors mentioned above, our annual 2018 trade name impairment test, as of October 31, 2018, 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 “Summary of Significant Accounting Policies” and NOTE 6 “Goodwill and Other Intangible Assets” of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K.

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 related to weak demand conditions for the TC10 product in the fourth quarter of 2017 and the decision to cease production of the TC10 product in the fourth quarter of 2018, we recorded a \$4 million and \$32 million impairment loss associated with the production of TC10 for the years ended December 31, 2018 and 2017, respectively.

There were no impairment charges for the year ended December 31, 2016.

Table of Contents

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 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 10, "Product Warranty Liabilities" of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K which contains a summary of the activity in our warranty liability account for 2018, 2017 and 2016 including adjustments to pre-existing warranties.

Pension and Post-retirement Benefit Plans

Pension and 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, 2018. The effect of a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2018 defined benefit pension plans obligation of approximately \$20 million. Similarly, a one percentage point decrease in the assumed discount rate would result in an increase in the December 31, 2018 OPEB obligation of approximately \$13 million.

Further information is provided in NOTE 14 "Employee Benefit Plans" of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K, 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.

On December 22, 2017, the U.S Tax Cuts and Jobs Act was enacted into law. The U.S Tax Cuts and Jobs Act makes broad and complex changes to the U.S. tax code that impact us, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. It also made other changes including, but not limited to, the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as a one-time deemed repatriation tax on undistributed foreign earnings and profits. Beginning in 2018, the U.S Tax Cuts and Jobs Act made other changes impacting us such as additional limitations on executive compensation, the repeal of the domestic manufacturing deduction and qualifications around certain research and development expenditures.

As of December 31, 2018, our U.S. federal income tax deductions related to our intangible assets were approximately \$315 million annually through 2021 and approximately \$185 million in 2022. Excluding our intangible asset deductions, our expected tax payments would have increased by approximately \$70 million for the year ended December 31, 2018.

Table of Contents

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 Financial Accounting Standard Board's ("FASB") 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, "Income Taxes" of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

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

Recently Adopted Accounting Pronouncements

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

Table of Contents

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

We are subject to interest rate market risk in connection with a portion of our long-term debt. Our principal interest rate exposure relates to outstanding amounts under our Senior Secured Credit Facility. Our Senior Secured Credit Facility provides for variable rate borrowings of up to \$1,681 million including \$533 million under our Revolving Credit Facility, net of \$17 million of letters of credit. A one-eighth percent increase or decrease in assumed interest rates for the Senior Secured Credit Facility, if fully drawn as of December 31, 2018, would have an impact of approximately \$2 million on interest expense. As of December 31, 2018, 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. As of December 31, 2018, we held interest rate swaps effective from September 2019 to September 2022 with notional values totaling \$250 million and a weighted average LIBOR fixed rate of 3.01% and interest rate swaps effective from September 2019 to September 2025 with notional values totaling \$250 million and a weighted average LIBOR fixed rate of 3.04%.

During December 2017, we terminated interest rate swap contracts with notional values totaling \$800 million. The transaction resulted in \$13 million of interest expense.

Refer to NOTE 8, "Debt" and NOTE 9, "Derivatives" of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K.

Exchange Rate Risk

While our net sales and costs are denominated primarily in U.S. Dollars, net sales, costs, assets and liabilities are generated in other currencies including Japanese Yen, Euro, Indian Rupee, Brazilian Real, Chinese Yuan Renminbi, Canadian Dollar and Hungarian Forint. The expansion of our business outside North America may further increase the risk that cash flows resulting from these activities may be adversely affected by changes in currency exchange rates.

Assuming current levels of foreign currency transactions, a 10% aggregate increase or decrease in the Japanese Yen, Euro, Indian Rupee and Chinese Yuan Renminbi would correspondingly change our earnings, net of tax, by an estimated \$7 million per year. We believe other exposure to foreign currencies is immaterial.

Commodity Price Risk

We are subject to changes in our cost of sales caused by movements in underlying commodity prices. Approximately 70% 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 includes an adjustment factor on future purchases for fluctuations in aluminum prices based on accepted industry indices. In addition, a substantial amount of steel-based contracts also include an index-based component. As our costs change, we are able to pass through a portion of the changes in commodity prices to certain of our customers according to our LTSAs. We historically have not entered into long-term purchase contracts related to the purchase of aluminum and steel.

Assuming current levels of commodity purchases, a 10% variation in the price of aluminum and steel would correspondingly change our earnings by approximately \$3 million and \$7 million per year, respectively.

Many of our LTSAs have incorporated a cost-sharing arrangement related to potential future commodity price fluctuations. For purposes of the sensitivity analysis above, the impact of these cost sharing arrangements has not been included.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>52</u>
<u>Consolidated Balance Sheets</u>	<u>53</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>54</u>
<u>Consolidated Statements of Cash Flows</u>	<u>55</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>56</u>
<u>Notes to Consolidated Financial Statements</u>	<u>57</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Allison Transmission Holdings, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Allison Transmission Holdings, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

\\PricewaterhouseCoopers LLP
Indianapolis, Indiana
February 26, 2019

We have served as the Company's auditor since 2008.

52

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

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

	December 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 231	\$ 199
Accounts receivable - net of allowance for doubtful accounts of \$1 and \$0, respectively	279	221
Inventories	170	154
Income taxes receivable	16	33
Other current assets	29	25
Total Current Assets	725	632
Property, plant and equipment, net	466	448
Intangible assets, net	1,066	1,153
Goodwill	1,941	1,941
Other non-current assets	39	31
TOTAL ASSETS	\$ 4,237	\$ 4,205
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 169	\$ 159
Product warranty liability	26	22
Current portion of long-term debt	—	12
Deferred revenue	34	41
Other current liabilities	197	183
Total Current Liabilities	426	417
Product warranty liability	40	33
Deferred revenue	88	75
Long-term debt	2,523	2,534
Deferred income taxes	329	276
Other non-current liabilities	172	181
TOTAL LIABILITIES	3,578	3,516
Commitments and Contingencies (see NOTE 17)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value, 1,880,000,000 shares authorized, 126,251,266 shares issued and outstanding and 139,990,865 shares issued and outstanding, respectively	1	1
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	1,788	1,758
Accumulated deficit	(1,100)	(1,055)
Accumulated other comprehensive loss, net of tax	(30)	(15)
TOTAL STOCKHOLDERS' EQUITY	659	689
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 4,237	\$ 4,205

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

Table of Contents

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

	Years ended December 31,		
	2018	2017	2016
Net sales	\$2,713	\$2,262	\$1,840
Cost of sales	1,291	1,131	976
Gross profit	1,422	1,131	864
Selling, general and administrative	364	342	324
Engineering — research and development	131	105	88
Loss associated with impairment of long-lived assets	4	32	—
Operating income	923	652	452
Interest expense, net	(121)	(103)	(101)
Expenses related to long-term debt refinancing	—	—	(12)
Other income (expense), net	3	(22)	2
Income before income taxes	805	527	341
Income tax expense	(166)	(23)	(126)
Net income	\$639	\$504	\$215
Basic earnings per share attributable to common stockholders	\$4.81	\$3.38	\$1.28
Diluted earnings per share attributable to common stockholders	\$4.78	\$3.36	\$1.27
Dividends declared per common share	\$0.60	\$0.60	\$0.60
Other comprehensive (loss) income, net of tax:			
Foreign currency translation	(9)	15	(6)
Pension and OPEB liability adjustment	1	26	3
Available-for-sale securities and interest rate swaps	(7)	7	(1)
Total other comprehensive (loss) income, net of tax	(15)	48	(4)
Comprehensive income	\$624	\$552	\$211

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

Table of Contents

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

	Years ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$639	\$504	\$215
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	87	90	92
Depreciation of property, plant and equipment	77	80	84
Deferred income taxes	52	(50)	114
Stock-based compensation	13	12	9
Amortization of deferred financing costs	6	6	7
Loss associated with impairment of long-lived assets	4	32	—
Impairment loss on investments in technology-related initiatives	3	16	1
Unrealized gain on derivatives	—	(29)	(1)
Expenses related to long-term debt refinancing	—	—	11
Excess tax benefit from stock-based compensation	—	—	(6)
Other	4	—	1
Changes in assets and liabilities:			
Accounts receivable	(61)	(19)	(3)
Inventories	(18)	(25)	15
Accounts payable	9	30	2
Other assets and liabilities	22	11	50
Net cash provided by operating activities	837	658	591
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions of long-lived assets	(100)	(91)	(71)
Investments in technology-related initiatives	(3)	(3)	(1)
Net cash used for investing activities	(103)	(94)	(72)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchases of common stock	(609)	(885)	(256)
Dividend payments	(80)	(89)	(100)
Payments on long-term debt	(28)	(12)	(1,215)
Proceeds from exercise of stock options	22	19	24
Taxes paid related to net share settlement of equity awards	(4)	(1)	(2)
Debt financing fees	(1)	(6)	(21)
Borrowings on revolving credit facility	—	415	—
Repayments on revolving credit facility	—	(415)	—
Issuance of long-term debt	—	400	1,000
Excess tax benefit from stock-based compensation	—	—	6
Net cash used for financing activities	(700)	(574)	(564)
Effect of exchange rate changes on cash	(2)	4	(2)
Net increase (decrease) in cash and cash equivalents	32	(6)	(47)
Cash and cash equivalents at beginning of period	199	205	252
Cash and cash equivalents at end of period	\$231	\$199	\$205
Supplemental disclosures:			
Interest paid	\$115	\$124	\$78
Income taxes paid	\$101	\$96	\$13

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

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

Allison Transmission Holdings, Inc.
 Consolidated Statements of Stockholders' Equity
 (dollars in millions)

	Common Stock	Non-voting Common Stock	Preferred Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss, net of tax	Stockholders' Equity
Balance at December 31, 2015	\$ 2	\$ —	\$ —	—\$1,690	\$ (445)	\$ (59)	\$ 1,188
Stock-based compensation	—	—	—	9	—	—	9
Pension and OPEB liability adjustment	—	—	—	—	—	3	3
Foreign currency translation adjustment	—	—	—	—	—	(6)	(6)
Available-for-sale securities	—	—	—	—	—	(1)	(1)
Issuance of common stock	—	—	—	23	—	—	23
Repurchase of common stock	—	—	—	—	(256)	—	(256)
Dividends on common stock	—	—	—	—	(100)	—	(100)
Excess tax benefit from stock-based compensation	—	—	—	6	—	—	6
Net income	—	—	—	—	215	—	215
Balance at December 31, 2016	\$ 2	\$ —	\$ —	—\$1,728	\$ (586)	\$ (63)	\$ 1,081
Stock-based compensation	—	—	—	12	—	—	12
Pension and OPEB liability adjustment	—	—	—	—	—	26	26
Foreign currency translation adjustment	—	—	—	—	—	15	15
Available-for-sale securities	—	—	—	—	—	7	7
Issuance of common stock	—	—	—	18	—	—	18
Repurchase of common stock	(1)	—	—	—	(884)	—	(885)
Dividends on common stock	—	—	—	—	(89)	—	(89)
Net income	—	—	—	—	504	—	504
Balance at December 31, 2017	\$ 1	\$ —	\$ —	—\$1,758	\$ (1,055)	\$ (15)	\$ 689
Stock-based compensation	—	—	—	13	—	—	13
Pension and OPEB liability adjustment	—	—	—	—	—	1	1
Foreign currency translation adjustment	—	—	—	—	—	(9)	(9)
Available-for-sale securities and interest rate swaps	—	—	—	—	—	(7)	(7)
Issuance of common stock	—	—	—	17	—	—	17
Repurchase of common stock	—	—	—	—	(609)	—	(609)
Dividends on common stock	—	—	—	—	(80)	—	(80)
Impact of adopting accounting standards	—	—	—	—	5	—	5
Net income	—	—	—	—	639	—	639
Balance at December 31, 2018	\$ 1	\$ —	\$ —	—\$1,788	\$ (1,100)	\$ (30)	\$ 659

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

Table of Contents

Allison Transmission Holdings, Inc.
Notes to Consolidated Financial Statements

NOTE 1. OVERVIEW

Overview

Allison Transmission Holdings, Inc. and its subsidiaries (“Allison” or the “Company”) 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”. The Company has approximately 2,900 employees and 12 different transmission product lines. Although approximately 77% of revenues were generated in North America in 2018, the Company has a global presence by serving customers in Europe, Asia, South America and Africa. The Company serves customers through an independent network of approximately 1,400 independent distributor and dealer locations worldwide.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The information herein reflects all normal recurring material adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the periods presented. The consolidated financial statements herein consist of all wholly-owned domestic and foreign subsidiaries with all significant intercompany transactions eliminated. These consolidated financial statements present the financial position, results of comprehensive income, cash flows and statements of equity.

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. Estimates include, but are not limited to, 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 liabilities, environmental liabilities, 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.

Segment Reporting

In accordance with the Financial Accounting Standards Board’s (“FASB”) authoritative accounting guidance on segment reporting, the Company has one operating segment and reportable segment. The Company is in one line of business, which is the manufacture and distribution of fully-automatic transmissions.

Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly-liquid investments with original maturities of 90 days or less. Under the Company’s cash management system, checks issued but not presented to banks may result in book overdraft balances for accounting purposes and are classified within Accounts payable in the Consolidated Balance Sheets. The change in book overdrafts is reported as a component of operating cash flows for Accounts payable.

Table of Contents

Marketable Securities

The Company determines the appropriate classification of all marketable securities as “held-to-maturity,” “available-for-sale” or “trading” at the time of purchase, and re-evaluates such classifications as of each balance sheet date. As of December 31, 2018, and 2017, the Company’s marketable securities were classified as trading.

Trading securities are carried at fair value with the unrealized gain or loss recognized in Other income (expense), net. The fair value of the Company’s investment securities is determined by currently available market prices. See NOTE 7 “Fair Value of Financial Instruments” for more details.

Inventories

Inventories are stated at the lower of cost and net realizable value. The Company determines cost using the first-in, first-out method. The Company analyzes inventory on a quarterly basis to determine whether it is excess or obsolete inventory. Any decline in carrying value of estimated excess or obsolete inventory is recorded as a reduction of inventory and as an expense included in Cost of sales in the period it is identified.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation expense is recorded using the straight-line method over the following estimated lives:

	Range in Years
Land improvements	5 – 30
Buildings and building improvements	10 – 40
Machinery and equipment	2 – 20
Software	2 – 5
Special tools	2 – 10

Software represents the costs of software developed or obtained for internal use. Software costs are amortized on a straight-line basis over their estimated useful lives. Software assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable over the remaining lives of the assets. Upgrades and enhancements are capitalized if they result in added functionality, which enables the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion and business process reengineering costs are expensed in the period in which they are incurred.

Special tooling represents the costs to design and develop tools, dies, jigs and other items owned by the Company and used in the manufacture of components by suppliers under long-term supply agreements. Special tooling is depreciated over the tool’s expected life.

Special tooling used in the development of new technology is expensed as incurred. Engineering, testing and other costs incurred in the design and development of production parts are expensed as incurred.

Impairment of Long-Lived Assets

The carrying value of long-lived assets is evaluated whenever events or circumstances indicate that the carrying value of an 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.

Table of Contents

As a result of events and circumstances related to weak demand conditions for the TC10 product in the fourth quarter of 2017 and the decision to cease production of the TC10 product in the fourth quarter of 2018, the Company recorded a \$4 million and \$32 million impairment loss associated with the production of TC10 for the years ended December 31, 2018 and 2017, respectively. There were no impairment charges for the year ended December 31, 2016.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price paid over the fair value of net assets acquired. In accordance with the FASB's authoritative accounting guidance on goodwill, the Company does not amortize goodwill but rather evaluates it for impairment on an annual basis, or more often if events or circumstances change that could cause goodwill to become impaired. Goodwill is tested for impairment at the reporting unit level, which is the same as the Company's one operating and reportable segment. The Company does not aggregate any components into its reporting unit. The Company has elected to perform its annual goodwill impairment test on October 31 of every year using a multi-step impairment test. In Step 0, the Company has the option to evaluate various qualitative factors to determine the likelihood of impairment. If determined that the fair value is more likely than not less than the carrying value, then the Company is required to perform Step 1. If the Company does not elect to perform Step 0, it can voluntarily proceed directly to Step 1. In Step 1, the Company performs a quantitative analysis to compare the fair value of its reporting unit to its 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 the Company is not required to perform further testing. If the carrying value of a reporting unit's goodwill exceeds its carrying value of net assets, then the Company would record an impairment loss equal to the difference.

Goodwill impairment testing for 2018 was performed using the Step 0 analysis of certain trends and factors. The Company's qualitative assessment included an assessment of business changes, economic outlook, financial trends and forecasts, growth rates, credit ratings, equity ratings, discount rates, industry data and other relevant qualitative factors. 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 growth initiatives, 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. While unpredictable and inherently uncertain, the Company believes the forecast estimates were reasonable and incorporate assumptions that similar market participants would use in their estimates of fair value. These trends and factors were compared to, and based on, the assumptions used in prior years. After reviewing various qualitative factors, the Company's 2018 annual goodwill impairment test indicated that the fair value of the reporting unit more likely than not exceeded its carrying value, indicating no impairment. Refer to NOTE 6, "Goodwill and Other Intangible Assets" for further information.

Other intangible assets have both indefinite and finite useful lives. Intangible assets with indefinite useful lives, such as the Company's trade name, are not amortized but are tested annually for impairment. The Company has elected to perform its annual trade name impairment test on October 31 of every year and follow a similar multi-step impairment test to that performed on goodwill. Events or circumstances that could unfavorably impact the key assumptions include lower net sales driven by market conditions, the Company's inability to execute on marketing programs and/or delay in introduction of new products, and higher discount rate as a result of market conditions. While unpredictable and inherently uncertain, the Company believes the forecast estimates are reasonable and incorporate those assumptions that similar market participants would use in their estimates of fair value. After reviewing various qualitative factors, the Company's annual 2018 trade name impairment test indicated that the fair value of the trade name more likely than not exceeded its carrying value, indicating no impairment. Refer to NOTE 6, "Goodwill and Other Intangible Assets" for further information.

Table of Contents

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. Customer relationships are amortized over the life in which expected benefits are to be consumed. The other remaining finite life intangibles are amortized on a straight-line basis over their useful lives. The Company evaluates the remaining useful life of the other intangible assets on a periodic basis to determine whether events or circumstances warrant a revision to the remaining useful life. Assumptions and estimates about future values and remaining useful lives of the Company's 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 the Company's business strategy and internal forecasts. Although management believes the historical assumptions and estimates are reasonable and appropriate, different assumptions and estimates could materially impact the Company's reported financial results. NOTE 6 "Goodwill and Other Intangible Assets" provides further information.

Deferred Financing Costs

The debt issuance costs related to line-of-credit arrangements is presented as a component of other non-current assets. The debt issuance costs related to other types of debt instruments such as notes and loans are presented as a component of long-term debt. Deferred financing costs continue to be amortized over the life of the related debt using the effective interest method. Amortization of deferred financing costs is recorded as part of interest expense and totaled \$6 million, \$6 million and \$7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Financial Instruments

The Company's cash equivalents are invested in U.S. government backed securities and recorded at fair value in the Consolidated Balance Sheets. The carrying values of accounts receivable and accounts payable approximate fair value due to their short-term nature. The Company's financial derivative instruments, including interest rate swaps, are carried at fair value on the Consolidated Balance Sheets. Refer to NOTE 7, "Fair Value of Financial Instruments" for more detail. The Company's long-term debt obligations are carried at historical amounts with the Company providing fair value disclosure in NOTE 8, "Debt".

Insurable Liabilities

The Company records liabilities for its medical, workers' compensation, long-term disability, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated based upon historical claims experience.

Revenue Recognition

The Company records sales as each distinct performance obligation within a contract is satisfied. The Company sells extended transmission coverage ("ETC") for which sales are deferred. ETC sales are recognized ratably over the period of coverage, which typically ranges from two to five years after initial sale. Costs associated with ETC programs are recorded as incurred during the extended period. Distributor and customer sales incentives, consisting of allowances and other rebates, are recorded as a reduction to Net sales when it is determined that the adjustment is not likely to reverse, historically on a quarterly basis. Incentive programs are generally product specific or region specific. Some factors used in estimating when an adjustment is not likely to reverse are the number of transmissions that will be affected by the incentive program and rate of acceptance of any incentive program. Consideration given to commercial customers recorded as a reduction of Net sales in the Consolidated Statements of Comprehensive Income included \$80 million, \$66 million, and \$58 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Sales under U.S. government production contracts are recognized at the point in time when control passes to the customer, or when the U.S. government accepts the transmission and is able to direct its use in certain bill-and-hold arrangements. Deferred revenue arises from cash received in advance of the culmination of the earnings process and is recognized as revenue in future periods when the applicable revenue recognition criteria have been met. Under the terms of previous U.S. government contracts, there were certain price reduction clauses and provisions for potential price reductions which were estimated at the time of sale based upon the Company's history and experience and were recorded as a reduction to Net sales. Potential reductions may be attributed to a change in projected sales volumes or plant efficiencies which impact overall costs. As of each of December 31, 2018 and 2017, the Company had \$56 million recorded in the price reduction reserve account.

Table of Contents

The Company engages in licensing agreements with certain third parties for the use of the Company's intellectual property. Deferred revenue arises from cash received in advance of the period of use of the intellectual property. Revenue is recognized over the license period as it is earned.

The Company classifies shipping and handling billed to customers in Net sales and shipping and handling costs in Cost of sales, in accordance with authoritative accounting guidance.

The Company contracts with various third parties to provide engineering services. These services are recorded as Net sales in accordance with the terms of the contract. The saleable engineering recorded was \$3 million for each of the years ended December 31, 2018, 2017 and 2016. The associated costs are recorded in Cost of sales.

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 based on the Company's 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, the Company 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 the Company commits to an action. The Company reviews and assesses the liability for these programs on a quarterly basis. The Company also assesses its ability to recover certain costs from its suppliers and records a receivable from the supplier when it believes a recovery is probable. Warranty costs may differ from those estimated if actual claim rates are higher or lower than the Company's historical rates.

Research and Development

The Company incurs costs in connection with research and development programs that are expected to contribute to future earnings. Such costs are charged to Engineering — research and development as incurred.

Environmental

The Company accrues costs related to environmental matters when it is probable that the Company has incurred a liability related to a contaminated site and the costs can be reasonably estimated. For additional information, see NOTE 17, "Commitments and Contingencies".

Foreign Currency Translation

Most of the subsidiaries outside the United States prepare financial statements in currencies other than the U.S. Dollar. The functional currency for all of these subsidiaries is the local currency, except for the Company's Hong Kong and Middle East subsidiaries which currently use the U.S. Dollar as their functional currency. Balances are translated at period-end exchange rates for assets and liabilities and monthly weighted-average exchange rates for revenues and expenses. The translation gains and losses are stated as a component of Accumulated Other Comprehensive Loss ("AOCL") as disclosed in NOTE 16, "Accumulated Other Comprehensive Loss".

Derivative Instruments

In the normal course of business, the Company is exposed to fluctuations in interest rates, foreign currency exchange rates, and commodity prices. The risk is managed through the use of financial derivative instruments, when appropriate. The Company has qualified for and elected hedge accounting treatment on interest rate swap contracts. As necessary, the Company adjusts the values of the derivative instruments for counter-party or credit risk. NOTE 9, "Derivatives" provides further information on the accounting treatment of the Company's derivative instruments.

Table of Contents

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.

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.

Stock-Based Compensation

In March 2015, the Company's Board of Directors adopted and, in May 2015, the Company's stockholders approved the Allison Transmission Holdings, Inc. 2015 Equity Incentive Award Plan ("2015 Plan"), which became effective on May 14, 2015. Under the 2015 Plan, certain employees (including executive officers), consultants and directors are eligible to receive equity-based compensation, including non-qualified stock options, incentive stock options, restricted stock, dividend equivalents, stock payments, restricted stock units ("RSUs"), performance awards, stock appreciation rights and other equity-based awards, or any combination thereof. The 2015 Plan limits the aggregate number of shares of common stock available for issue to 15.3 million and will expire on, and no option or other equity award may be granted pursuant to the 2015 Plan after, the tenth anniversary of the date the 2015 Plan was approved by the Board of Directors. Prior to the adoption of the 2015 Plan, the Company's equity-based awards were granted under the Allison Transmission Holdings, Inc. 2011 Equity Incentive Award Plan ("2011 Plan") and the Equity Incentive Plan of Allison Transmission Holdings, Inc. ("Equity Plan" and, together with the 2011 Plan, the "Prior Plans"). As of the effective date of the 2015 Plan, no new awards will be granted under the Prior Plans, but the Prior Plans will continue to govern the equity awards issued under the Prior Plans.

RSU grants are recorded at fair market value at the date of grant and vest upon continued performance of services by the RSU holders over one to three years. Performance unit grants are recorded at fair value based on a Monte-Carlo pricing model and the restrictions lapse on the date the Compensation Committee of the Board of Directors determines the number of shares that shall vest based on the related performance or market condition achievement. Non-qualified stock option grants are recorded at fair value using a Black-Scholes option pricing model and vest upon the continued performance of services by the option holder on the third anniversary of the grant date for awards under the 2015 Plan.

The Company has made a policy election under applicable accounting guidance to account for forfeitures as a reduction of stock-based compensation expense when the forfeiture actually occurs.

RSUs were granted to certain employees and directors at fair market value on the date of grant. The restrictions lapse upon continued performance by the RSU holder on the vest date which generally occurs over one, two or three years. RSU incentive compensation expense recorded was \$5 million, \$7 million and \$2 million for the years ended December 31, 2018, 2017 and 2016, respectively. Performance-based awards, including performance units, were granted to certain employees at fair value at the date of grant. The Company records the fair value of each performance-based award based on a Monte-Carlo pricing model. Performance-based award incentive compensation expense recorded was \$6 million, \$3 million and \$1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Stock options were granted to certain employees at fair value on the date of grant using a Black-Scholes option pricing model. Stock option incentive compensation expense recorded was \$2 million, \$2 million and \$3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Table of Contents

Pension and Post-retirement Benefit Plans

For pension and other post-retirement benefits (“OPEB”) plans in which employees participate, costs are determined within the FASB’s authoritative accounting guidance set forth in employers’ defined benefit pensions including accounting for settlements and curtailments of defined benefit pension plans, termination of benefits and accounting for post-retirement benefits other than pensions. In accordance with the authoritative accounting guidance, the Company recognizes the funded status of its defined benefit pension plans and OPEB plan in its Consolidated Balance Sheets with a corresponding adjustment to AOCL, net of tax.

Post-retirement benefit costs consist of service cost and interest cost on accrued obligations. Actuarial gains and losses on liabilities, together with any prior service costs, are charged (or credited) to income over the average remaining service lives of employees.

The benefit cost components shown in the Consolidated Statements of Comprehensive Income 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. The Company reviews all actuarial assumptions on an annual basis. Changes in key economic indicators can change these assumptions. These assumptions, along with the actual value of assets at the measurement date, will impact the calculation of pension expenses for the year.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued authoritative accounting guidance on a company’s accounting for revenue from contracts with customers, which guidance was subsequently amended. 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 disclosures regarding the nature, timing, amount and uncertainty of revenue that is recognized. The guidance was adopted by the Company effective January 1, 2018 on a modified retrospective basis. See NOTE 3, “Revenue” for information regarding the impact of the adoption of this guidance.

In February 2016, the FASB issued authoritative accounting guidance on lease accounting, which guidance was subsequently amended. The guidance requires lessees to present right-of-use assets and lease liabilities on the balance sheet for all leases not considered short-term leases. Short-term leases are leases with a lease term of 12 months or less as long as the leases do not include options to purchase the underlying assets that the lessee is reasonably certain to exercise. The guidance also introduces new disclosure requirements for leasing arrangements. In July 2018, the FASB issued additional authoritative guidance on this topic giving lessees an optional adoption approach under which the impact of the adoption of the guidance would be shown as of the date of adoption. Management has elected to adopt the guidance using this modified retrospective approach. The guidance was adopted by the Company effective January 1, 2019. The Company will record a non-monetary right-of-use asset and current and non-current lease liabilities of less than \$15 million on its Consolidated Balance Sheets as of January 1, 2019. The adoption of this guidance did not have a material impact on the Company’s Consolidated Statements of Comprehensive Income.

In August 2016, the FASB issued authoritative accounting guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance was adopted by the Company effective January 1, 2018 and did not have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued authoritative accounting guidance on the presentation of net periodic pension costs and net periodic post-retirement benefit costs. The guidance clarifies the presentation of component costs within an employer’s financial statements and restricts component costs eligible for capitalization to the service cost component. The guidance was adopted by the Company effective January 1, 2018 and did not have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued authoritative accounting guidance on accounting for modifications to the terms of employee stock compensation. The guidance clarifies which changes to terms or conditions of share-based payment awards require the entity to apply modification accounting. The guidance was adopted by the Company effective January 1, 2018 and did not have a material impact on the Company’s consolidated financial statements.

Table of Contents

In August 2017, the FASB issued authoritative accounting guidance on accounting for derivative and hedge instruments. Among other things, the guidance allows the initial hedge effectiveness assessment to be performed by the end of the quarter in which the hedge is designated, permits a qualitative assessment for certain hedges if an expectation of high effectiveness can be supported throughout the term of the hedge, and removes the requirement to record ineffectiveness on cash flow hedges immediately through earnings when the hedge is highly effective. The guidance was early adopted by the Company effective April 1, 2018 and applied upon entering into interest rate swaps designated as cash flow hedges during the second quarter of 2018. When adopted in an interim period, the guidance is required to be reflected as of the beginning of the year of adoption. The Company has not previously designated any derivative instruments as hedging instruments, and thus, the adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued authoritative accounting guidance on transfers of stranded balances in accumulated other comprehensive loss to retained earnings. The passage of the U.S. Tax Cuts and Jobs Act by the U.S. federal government in December 2017 and existing GAAP requirements to adjust deferred tax assets and liabilities for changes in tax laws or rates created stranded balances in accumulated other comprehensive loss on deferred tax assets and liabilities previously recorded as a component to accumulated other comprehensive loss. The guidance applies to companies affected by these stranded balances and allows a reclassification of these balances to retained earnings. The guidance was adopted by the Company effective January 1, 2019. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued authoritative accounting guidance on accounting for nonemployee awards for goods or services received by a company. The guidance was adopted by the Company effective January 1, 2019. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued authoritative accounting guidance on the presentation of financial assets at the net amount expected to be collected. The guidance also requires the disclosure of financing receivables disaggregated by the year of origination. The guidance will be effective for the Company in fiscal year 2020, and the Company does not plan to early adopt. Management is evaluating the impact of this guidance on the Company's consolidated financial statements.

In August 2018, the FASB issued authoritative accounting guidance amending disclosure requirements for certain assets subject to fair value measurement. The guidance allows the Company to reduce the amount of disclosure on transfers between Level 1 and Level 2 assets. The guidance will be effective for the Company in fiscal year 2020, and the Company does not plan to early adopt. Management does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued authoritative accounting guidance amending disclosure requirements for the Company's defined benefit pension plans and other post-retirement benefit plan. The guidance will be effective for the Company in fiscal year 2021, but early adoption is permitted. Management is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

In August 2018, the FASB issued authoritative accounting guidance on accounting for implementation costs in hosting arrangements to align these costs with existing guidance for internally developed software. The stage of implementation must be assessed to determine if costs should be capitalized or expensed, and capitalized costs should be expensed during the noncancellable term of the agreement. The guidance will be effective for the Company in fiscal year 2020, and the Company does not plan to early adopt. Management is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

Table of Contents

NOTE 3. REVENUE

Adoption of New Revenue Guidance

New authoritative accounting guidance for revenue was adopted by the Company effective January 1, 2018 using the modified retrospective approach. Current period results are presented in conformity with the new authoritative accounting guidance, while prior period results are presented in conformity with prior accounting guidance.

In accordance with the modified retrospective approach, the Company recorded a one-time adjustment related to sales of ETC contracts open as of the date of adoption, which increased opening retained earnings by \$5 million, net of tax, and decreased current deferred revenue by \$2 million and non-current deferred revenue by \$4 million as of January 1, 2018.

During the year ended December 31, 2018, the Company increased net sales by \$2 million, and decreased non-current deferred revenue by \$2 million, compared to prior accounting guidance, as a result of how the Company allocates revenue to the ETC performance obligation in certain contracts under the new authoritative accounting guidance for revenue.

Under the new authoritative accounting guidance, revenue is recognized as each distinct performance obligation within a contract with a customer is satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company enters into long-term supply agreements (“LTSAs”) and distributor agreements with certain customers. The LTSAs and distributor agreements do not include committed volumes until underlying purchase orders are issued; therefore, the Company determined that purchase orders are the contract with a customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied, as there is no right of return.

Many of the Company’s contracts have a single performance obligation, as the promise to transfer the individual good or service is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Some of the Company’s contracts have multiple performance obligations, most commonly the sale of both a transmission and ETC. For contracts with multiple performance obligations, the Company allocates the contract’s transaction price to each performance obligation using a ratable allocation based on the standalone selling price of each distinct good or service in the contract.

The Company may also use volume based discounts and rebates as marketing incentives in the sales of both transmissions and service parts, which are accounted for as variable consideration. The Company records the impact of the incentives as a reduction to revenue when it is determined that the adjustment is not likely to reverse, historically on a quarterly basis. Due to the typically short duration of purchase orders and minimal number of open contracts with variable consideration at any point in time, the impact of variable consideration is immaterial. If it were to become material, the Company would explain the methods, assumptions and estimates used to determine the consideration allocated to each performance obligation. The Company estimates the impact of all other incentives based on the related sales and market conditions in the end market vocation.

Net sales are made on credit terms, generally 30 days, based on an assessment of the customer’s creditworthiness. For certain goods or services, the Company receives consideration prior to satisfying the related performance obligation. Such consideration is recorded as a contract liability in current and non-current deferred revenue as of December 31, 2018 and December 31, 2017. See NOTE 11, “Deferred Revenue” for more information including the amount of revenue earned during the year ended December 31, 2018 that had been previously deferred. The Company does not have contract assets.

Table of Contents

Disaggregated Revenue

The Company has one operating segment and reportable segment. The Company is in one line of business, which is the manufacture and distribution of fully automatic transmissions. The following presents disaggregated revenue by categories that best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors (dollars in millions):

	Year ended December 31, 2018
North America On-Highway	\$ 1,317
North America Off-Highway	93
Defense	158
Outside North America On-Highway	383
Outside North America Off-Highway	129
Service Parts, Support Equipment and Other	633
Total Net Sales	\$ 2,713

Disaggregated revenue by end market is further described as follows:

North America On-Highway

Revenue from the North America On-Highway end market is driven by the sale of transmissions to original equipment manufacturers (“OEMs”), distributors and dealers that install the transmission into Class 4-5, Class 6-7 and Class 8 straight trucks, conventional transit, shuttle and coach buses, school buses and motorhome applications. Revenue from the North America On-Highway end market also includes the sale of electric hybrid-propulsion systems for transit bus. Revenue is recognized at the point in time when control passes to the customer, which is based on shipping terms when the order is fulfilled by the Company.

North America Off-Highway

Revenue from the North America Off-Highway end market is driven by sales of transmissions to OEMs and distributors that serve end users who operate vehicles and auxiliary equipment in energy, mining and construction applications. Revenue is recognized at the point in time when control passes to the customer, which is based on shipping terms when the order is fulfilled by the Company.

Defense

Revenue from the Defense end market is driven by sales of transmissions to the U.S. Government or its contractors and sales to certain government contractors outside of the U.S. for use in both wheeled and tracked defense vehicle applications. Revenue is recognized at the point in time when control passes to the customer, which is based on shipping terms when the order is fulfilled by the Company.

Periodically, the Company and the U.S. Government will enter into a bill-and-hold arrangement where a completed transmission physically remains at the Company’s facility at the request of the U.S. Government. Revenue is recognized at the point in time when it is determined that the U.S. Government accepts the transmission and is able to direct its use.

Outside North America On-Highway

Revenue from the Outside North America On-Highway end market is driven by the sale of transmissions to OEMs and distributors that produce vehicles for commercial users in medium and heavy duty applications. Revenue is recognized at the point in time when control passes to the customer, which is based on shipping terms when the order is fulfilled by the Company.

Table of Contents

Outside North America Off-Highway

Revenue from the Outside North America Off-Highway end market is driven by sales of transmissions to OEMs and distributors serving end users who operate vehicles and auxiliary equipment in energy, mining and construction applications. Revenue is recognized at the point in time when control passes to the customer, which is based on shipping terms when the order is fulfilled by the Company.

Service Parts, Support Equipment and Other

Revenue from the Service Parts, Support Equipment and Other end market is primarily derived from the sale of transmission parts and fluid purchased for the normal maintenance and repair needs of products in service and the sale of ETC contracts which extend the warranty coverages of transmissions beyond the standard warranty period.

Revenue is recognized on sales of service parts and support equipment at the point in time when control passes to the customer, which is based on shipping terms when the order is fulfilled by the Company.

Revenue from the sale of ETC contracts is recognized ratably over the time period that corresponds with the period of coverage, as the Company has determined this method best depicts the progress towards satisfaction of its performance obligation. ETC contracts are sold in one to five year durations within the North America On-Highway, Outside North America On-Highway, North America Off-Highway and Outside North America Off-Highway end markets. The ETC contract period begins when the standard warranty coverage period ends. All consideration allocated to an ETC performance obligation is initially deferred until the coverage period begins.

NOTE 4. INVENTORIES

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

	December	December
	31, 2018	31, 2017
Purchased parts and raw materials	\$ 82	\$ 79
Work in progress	8	6
Service parts	48	46
Finished goods	32	23
Total inventories	\$ 170	\$ 154

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 13, "Other Current Liabilities" for more information.

Table of Contents

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

The cost and accumulated depreciation of property, plant and equipment are as follows (dollars in millions):

	December	
	31, 2018	31, 2017
Land and land improvements	\$ 24	\$ 24
Buildings and building improvements	336	322
Machinery and equipment	643	601
Software	143	136
Special tools	201	169
Construction in progress	52	46
Total property, plant and equipment	1,399	1,298
Accumulated depreciation	(933)	(850)
Property, plant and equipment, net	\$ 466	\$ 448

Depreciation of property, plant and equipment was \$77 million, \$80 million and \$84 million for the years ended December 31, 2018, 2017 and 2016, respectively.

As a result of events and circumstances related to weak demand conditions for the TC10 product in the fourth quarter of 2017 and the decision to cease production of the TC10 product in the fourth quarter of 2018, the Company reviewed certain of its long-lived assets related to the production of the TC10 product, resulting in losses of \$1 million and \$32 million for the years ended December 31, 2018 and 2017. See NOTE 2 "Summary of Significant Accounting Policies", Impairment of Long-Lived Assets for more information.

Table of Contents

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

As of both December 31, 2018 and 2017, the carrying amount of the Company's Goodwill was \$1,941 million.

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

	December 31, 2018			December 31, 2017		
	Intangible assets, gross	Accumulated amortization	Intangible assets, net	Intangible assets, gross	Accumulated amortization	Intangible assets, net
Other intangible assets:						
Trade name	\$790	\$ —	\$790	\$790	\$—	\$790
Customer relationships – commercial	832	(619)	213	832	(573)	259
Proprietary technology	476	(434)	42	476	(396)	80
Customer relationships – defense	62	(41)	21	62	(38)	24
Patented technology – defense	28	(28)	—	28	(28)	—
Non-compete agreement	17	(17)	—	17	(17)	—
Tooling rights	5	(5)	—	5	(5)	—
Total	\$2,210	\$ (1,144)	\$1,066	\$2,210	\$ (1,057)	\$1,153

Amortization of intangible assets was \$87 million, \$90 million and \$92 million for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018 and 2017, the net carrying value of the Company's Goodwill and Other intangible assets, net was \$3,007 million and \$3,094 million, respectively. The Company's 2018 annual goodwill impairment test indicated that the fair value of the reporting unit more likely than not exceeded its carrying value, indicating no impairment. The Company's 2018 annual trade name impairment test indicated that the fair value of the trade name more likely than not exceeded its carrying value, indicating no impairment.

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

	2019	2020	2021	2022	2023
Amortization expense	\$ 86	\$ 50	\$ 45	\$ 43	\$ 42

;

Table of Contents

NOTE 7. 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 December 31, 2018 and December 31, 2017, the Company did not have any Level 3 financial assets or liabilities.

The Company's assets and liabilities that are measured at fair value include cash equivalents, 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 derivative instruments consist of interest rate 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, 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 Company uses valuations from the issuing financial institutions for the fair value measurement of interest rate swaps. 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 Consolidated Balance Sheets.

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

The following table summarizes the fair value of the Company's financial assets and (liabilities) as of December 31, 2018 and 2017 (dollars in millions):

	Fair Value Measurements Using					
	Quoted Prices in Active		Markets for Identical		Other	
	Assets (Level 1)		Observable Inputs (Level 2)		TOTAL	
	2018	2017	2018	2017	2018	2017
Cash equivalents	\$ 111	\$ 50	\$ —	\$ —	\$ 111	\$ 50
Rabbi trust assets	9	8	—	—	9	8
Deferred compensation obligation	(9)	(8)	—	—	(9)	(8)
Derivative liabilities, net	—	—	(9)	—	(9)	—
Total	\$ 111	\$ 50	\$ (9)	\$ —	\$ 102	\$ 50

NOTE 8. DEBT

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

	December 31, 2018	December 31, 2017
Long-term debt:		
Senior Secured Credit Facility Term B-3 Loan, variable, due 2022	\$ 1,148	\$ 1,176
Senior Notes, fixed 5.0%, due 2024	1,000	1,000
Senior Notes, fixed 4.75%, due 2027	400	400
Total long-term debt	\$ 2,548	\$ 2,576
Less: current maturities of long-term debt	—	12
deferred financing costs, net (see NOTE 2)	25	30
Total long-term debt, net	\$ 2,523	\$ 2,534

Principal payments required on long-term debt during the next five years are as follows:

(dollars in millions)	2019	2020	2021	2022	2023
Payments	\$ —	\$ 8	\$ 12	\$ 1,128	\$ —

As of December 31, 2018, the Company had \$2,548 million of indebtedness associated with Allison Transmission, Inc.'s ("ATI"), the Company's wholly-owned subsidiary, 5.0% Senior Notes due September 2024 ("5.0% Senior Notes"), ATI's 4.75% Senior Notes due October 2027 ("4.75% Senior Notes") and ATI's Senior Secured Credit Facility ("Senior Secured Credit Facility"), which consists of the Senior Secured Credit Facility Term B-3 Loan due 2022 ("Term B-3 Loan") and the Senior Secured Credit Facility revolving credit facility due 2021 ("Revolving Credit Facility").

The fair value of the Company's long-term debt obligations as of December 31, 2018 was \$2,446 million. The fair value is based on quoted Level 2 market prices of the Company's debt as of December 31, 2018. 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.

Table of Contents

Senior Secured Credit Facility

In March 2017, ATI entered into an amendment with the term loan lenders under its Senior Secured Credit Facility to lower the applicable margins on the Term B-3 Loan by 0.5%. The amendment also eliminated the minimum LIBOR floor and reduced the minimum floor applicable to the base rate from 1.75% to 1.00% on the Term B-3 Loan. The March 2017 amendment was treated as a modification to the Senior Secured Credit Facility under GAAP, and thus the Company recorded \$1 million as new deferred financing fees.

In September 2017, ATI entered into a joinder agreement with the lenders under its Senior Secured Credit Facility to increase the available commitments under the Revolving Credit Facility from \$450 million to \$550 million. The joinder agreement was treated as a modification to the Revolving Credit Facility under GAAP.

In March 2018, ATI entered into an amendment with the term loan lenders under its Senior Secured Credit Facility to lower the applicable margins on the Term B-3 Loan by 0.25%. The March 2018 amendment was treated as a modification to the Senior Secured Credit Facility under GAAP, and thus the Company recorded \$1 million as new deferred financing fees.

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-3 Loan, as of December 31, 2018, is either (a) 1.75% over the LIBOR or (b) 0.75% over the greater of the prime lending rate as quoted by the administrative agent and the federal funds effective rate published by the Federal Reserve Bank of New York plus 0.50%, provided that neither is below 1.00%. As of December 31, 2018, the Company elected to pay the lowest all-in rate of LIBOR plus the applicable margin, or 4.26%, on the Term B-3 Loan. The Senior Secured Credit Facility requires minimum quarterly principal payments on the 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. The minimum required quarterly principal payment on the Term B-3 Loan through its maturity date of September 2022 is \$3 million; however, the Company made voluntary prepayments of the required quarterly principal payments of \$25 million in May 2018. As of December 31, 2018, 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 is due upon maturity.

The Senior Secured Credit Facility also provides a Revolving Credit Facility, net of an allowance for up to \$75 million in outstanding letters of credit commitments. As of December 31, 2018, the Company had \$533 million available under the Revolving Credit Facility, net of \$17 million in letters of credit. Revolving Credit Facility borrowings bear interest at a variable base rate plus an applicable margin based on the Company's total leverage ratio. Interest on the Revolving Credit Facility is either (a) 1.75% over the LIBOR or (b) 0.75% over the greater of the prime lending rate in effect on such day and the federal funds effective rate published by the Federal Reserve Bank of New York plus 0.50%, provided that neither is below 1.75%. In addition, there is an annual commitment fee, based on the Company's total leverage ratio, on the average unused revolving credit borrowings available under the Revolving Credit Facility. Revolving Credit Facility borrowings are payable at the option of the Company throughout the term of the Senior Secured Credit Facility with the balance due in September 2021.

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 on the Revolving Credit Facility at the end of a fiscal quarter. As of December 31, 2018, the Company had no amounts outstanding under the Revolving Credit Facility; however the Company would have been in compliance with the maximum total senior secured leverage ratio, achieving a 0.81x ratio. Additionally, within the terms of the Senior Secured Credit Facility, a senior secured leverage ratio at or below 4.00x 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 the Company's 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. These reductions remain in effect as long as the Company achieves a total leverage ratio at or below the related threshold. As of December 31, 2018, the Company's total leverage ratio was 2.05x.

Table of Contents

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 December 31, 2018, the Company was in compliance with all covenants under the Senior Secured Credit Facility.

5.0% Senior Notes

ATI may from time to time seek to retire the 5.0% Senior Notes through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions, contractual redemptions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. Prior to October 1, 2019, ATI may redeem up to 40% of the 5.0% Senior Notes by paying a price equal to 100% of the principal amount being redeemed plus the applicable "make-whole" premium. At any time on or after October 1, 2019, ATI may redeem some or all of the 5.0% Senior Notes at specified redemption prices in the governing indenture.

The 5.0% Senior Notes are unsecured and are guaranteed by each of ATI's domestic subsidiaries that is a borrower under or guarantees the Senior Secured Credit Facility and are unconditionally guaranteed, jointly and severally, by any of ATI's future domestic subsidiaries that are borrowers under or guarantee the Senior Secured Credit Facility. None of ATI's domestic subsidiaries currently guarantee its obligations under the Senior Secured Credit Facility, and therefore none of ATI's domestic subsidiaries currently guarantee the 5.0% Senior Notes. The indenture governing the 5.0% Senior Notes contains negative covenants restricting or limiting the Company's ability to, among other things: incur or guarantee additional indebtedness, incur liens, pay dividends on, redeem or repurchase the Company's capital stock, make certain investments, permit payment or dividend restrictions on certain of the Company's subsidiaries, sell assets, engage in certain transactions with affiliates, and consolidate or merge or sell all or substantially all of the Company's assets. As of December 31, 2018, the Company was in compliance with all covenants under the indenture governing the 5.0% Senior Notes.

4.75% Senior Notes

In September 2017, ATI completed an offering of \$400 million of 4.75% Senior Notes. The 4.75% Senior Notes were offered in a private placement exempt from registration under the Securities Act of 1933, as amended. The proceeds from the offering were used for general corporate purposes and to pay related transaction fees and expenses. As a result of the offering, the Company recorded approximately \$5 million as deferred financing fees in the Consolidated Balance Sheets.

ATI may from time to time seek to retire the 4.75% Senior Notes through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions, contractual redemptions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. Prior to October 1, 2020, ATI may redeem up to 40% of the 4.75% Senior Notes by paying a price equal to 104.75% of the principal amount being redeemed. Prior to October 1, 2022, ATI may redeem some or all of the 4.75% Senior Notes by paying a price equal to 100.00% of the principal amount being redeemed, plus a "make-whole" premium. At any time on or after October 1, 2022, ATI may redeem some or all of the 4.75% Senior Notes at specified redemption prices in the governing indenture.

The 4.75% Senior Notes are unsecured and are guaranteed by each of ATI's domestic subsidiaries that is a borrower under or guarantees the Senior Secured Credit Facility and are unconditionally guaranteed, jointly and severally, by any of ATI's future domestic subsidiaries that are borrowers under or guarantee the Senior Secured Credit Facility. None of ATI's domestic subsidiaries currently guarantee its obligations under the Senior Secured Credit Facility, and therefore none of ATI's domestic subsidiaries currently guarantee the 4.75% Senior Notes. The indenture governing the 4.75% Senior Notes contains negative covenants restricting or limiting the Company's ability to, among other things: incur or guarantee additional indebtedness, incur liens, pay dividends on, redeem or repurchase the Company's capital stock, make certain investments, permit payment or dividend restrictions on certain of the Company's subsidiaries, sell assets, engage in certain transactions with affiliates, and consolidate or merge or sell all or substantially all of the Company's assets. As of December 31, 2018, the Company was in compliance with all covenants under the indenture governing the 4.75% Senior Notes.

Table of Contents

NOTE 9. DERIVATIVES

The Company is subject to interest rate risk related to the Senior Secured Credit Facility and enters into interest rate swaps that are based on the LIBOR to manage a portion of this exposure. The interest rate swaps are designated as cash flow hedges that qualify for hedge accounting under the hypothetical derivative method. Fair value adjustments are recorded as a component of AOCL in the Consolidated Balance Sheets. Balances in AOCL are reclassified to earnings when transactions related to the underlying risk are settled. As of December 31, 2018, the Company held interest rate swaps effective from September 2019 to September 2022 with notional values totaling \$250 million and a weighted average LIBOR fixed rate of 3.01% and interest rate swaps effective from September 2019 to September 2025 with notional values totaling \$250 million and a weighted average LIBOR fixed rate of 3.04%. See NOTE 7 "Fair Value of Financial Instruments" for information regarding the fair value of the Company's interest rate swaps.

The following tabular disclosures further describe the Company's interest rate derivatives qualifying and designated for hedge accounting and their impact on the financial condition of the Company (dollars in millions):

	December 31, 2018		December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other current liabilities	\$ (1)	Other current liabilities	\$ —
	Other non-current liabilities	(8)	Other non-current liabilities	—
Total derivatives designated as hedging instruments		\$ (9)		\$ —

The balance of derivative losses recorded in AOCL as of December 31, 2018 and 2017 was \$9 million and zero, respectively. See NOTE 16 "Accumulated Other Comprehensive Loss" for information regarding activity recorded as a component of AOCL during the year ended December 31, 2018. The Company had no derivative losses recorded in AOCL expected to be reclassified to earnings within the next twelve months as of December 31, 2018.

Table of Contents

NOTE 10. PRODUCT WARRANTY LIABILITIES

As of December 31, 2018, the current and non-current product warranty liabilities were \$26 million and \$40 million, respectively. As of December 31, 2017, the current and non-current product warranty liabilities were \$22 million and \$33 million, respectively. Product warranty liability activities consist of the following (dollars in millions):

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	\$ 55	\$ 63	\$ 79
Payments	(32)	(30)	(35)
Increase in liability (warranty issued during period)	38	18	16
Net adjustments to liability	5	4	3
Ending balance	\$ 66	\$ 55	\$ 63

The adjustments to the total liability in 2018, 2017 and 2016, excluding the Dual Power Inverter Module ("DPIM") as discussed below, were the result of general changes in estimates for various products and specific field action programs as additional claims data and field information became available.

Dual Power Inverter Module

During June 2007, General Motors Corporation recognized the estimated cost of replacing the DPIM used on H 40/50 EP electric hybrid systems. Certain units were falling short of their expected service life and the Company's predecessor, Allison Transmission, an operating unit of General Motors Corporation, decided to cover repair or replacement for an extended period. The Company is responsible for the first \$12 million of qualified cost while General Motors Company ("GM") is responsible for the next \$34 million of costs, with any amount over \$46 million being shared one-third by the Company and two-thirds by GM for shipments through June 30, 2009. As of December 31, 2018 and 2017, the Company's remaining DPIM liability was \$1 million and \$4 million, respectively, and the related receivable owed by GM to the Company was \$1 million and \$3 million, respectively.

NOTE 11. DEFERRED REVENUE

As of December 31, 2018, the current and non-current deferred revenue were \$34 million and \$88 million, respectively. As of December 31, 2017, the current and non-current deferred revenue were \$41 million and \$75 million, respectively. Deferred revenue activity consists of the following (dollars in millions):

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	\$ 110	\$ 93	\$ 79
Increases	52	52	37
Revenue earned	(40)	(29)	(23)
Ending balance	\$ 122	\$ 116	\$ 93

New authoritative accounting guidance for revenue was adopted by the Company effective January 1, 2018. The Company recorded a one-time adjustment related to sales of ETC contracts open as of the date of adoption, which decreased deferred revenue by \$6 million as of January 1, 2018. See NOTE 3, "Revenue" for information regarding the impact of the adoption of this guidance.

Deferred revenue recorded in current and non-current liabilities related to ETC as of December 31, 2018 were \$30 million and \$73 million, respectively. Deferred revenue recorded in current and non-current liabilities related to ETC as of December 31, 2017 were \$30 million and \$72 million, respectively.

Table of Contents

NOTE 12. OTHER INCOME (EXPENSE), NET

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

	Years ended December 31,		
	2018	2017	2016
Post-retirement benefit plan amendment credits	\$ 12	\$ —	\$ —
Vendor settlements	(4)	(5)	1
Technology-related investment expense	(3)	(16)	(1)
Other	(2)	(1)	2
Total	\$ 3	\$ (22)	\$ 2

NOTE 13. OTHER CURRENT LIABILITIES

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

	As of December 31, 2018	As of December 31, 2017
Payroll and related costs	\$ 81	\$ 73
Sales allowances	39	34
Accrued interest payable	19	19
Vendor buyback obligation	15	14
Taxes payable	10	10
Defense price reduction reserve	9	9
Non-trade payables	3	8
Derivative liabilities	1	—
Other accruals	20	16
Total	\$ 197	\$ 183

76

Table of Contents

NOTE 14. EMPLOYEE BENEFIT PLANS

The Company's hourly defined benefit pension plan generally provides benefits of negotiated, stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age. Any difference between actual and expected returns on assets during a year and actuarial gains and losses on liabilities together with any prior service costs are charged (or credited) to income over the average remaining service lives of employees. The benefit cost components shown in the Consolidated Statements of Comprehensive Income are based upon certain data specific to the Company, actuarial assumptions that were used for accounting disclosures, and certain allocation methodologies such as population demographics.

For all hourly employees hired after May 18, 2008, the defined benefit pension plan was replaced with a defined contribution pension plan, and the company-sponsored retiree healthcare was also eliminated for those hired after May 18, 2008. The charge to expense for the hourly defined contribution pension plan was \$2 million for each of the years ended December 31, 2018, 2017 and 2016.

The Company's salaried defined benefit plan covering salaried employees with a service date prior to January 1, 2001 is generally based on years of service and compensation history. Any difference between actual and expected returns on assets during a year and actuarial gains and losses on liabilities together with any prior service costs are charged (or credited) to income over the average remaining service lives of employees. The benefit cost components shown in the Consolidated Statements of Comprehensive Income are based upon certain data specific to the Company, actuarial assumptions that were used for accounting disclosures, and certain allocation methodologies such as population demographics.

The Company's salaried defined contribution retirement savings plan requires the Company to match employee contributions up to certain predefined limits based upon eligible base salary. In addition to the matching contribution, the Company is required to make a contribution equal to 1% of eligible base salary for salaried employees with a service date on or after January 1, 1993 to cover certain benefits in retirement that are different from salaried employees with a service date prior to January 1, 1993. In addition, for salaried employees with a service date on or after January 1, 2001, the Company is required to contribute to its defined contribution retirement savings plan an amount equal to 4% of eligible base salary under the program. The charge to expense for the salaried defined contribution retirement savings plan was \$7 million for the year ended December 31, 2018, and \$6 million for each of the years ended December 31, 2017 and 2016.

The Company is also responsible for OPEB costs (medical, dental, vision, and life insurance) for hourly employees hired prior to May 19, 2008, excluding those employees eligible to retire at the time of the sale of the Company. Post-retirement benefit costs consist of service cost and interest cost on accrued obligations. Actuarial gains and losses on liabilities and any prior service costs are charged (or credited) to income over the average remaining service lives of employees. The benefit cost components shown in the Consolidated Statements of Comprehensive Income are based upon certain data specific to the Company, actuarial assumptions that were used for OPEB accounting disclosures, and certain allocation methodologies such as population demographics. The plan is unfunded and any future payments will be funded by the Company's operating cash flows. As of December 31, 2018 and 2017, the Company had an estimated OPEB liability for hourly employees hired prior to May 19, 2008, excluding those employees eligible to retire at the time of the sale of the Company, of \$93 million and \$102 million, respectively.

As part of the Affordable Care Act enacted in 2010, the Company has evaluated the impact on "High-cost Health Plans" in which employers offering health plan coverage exceeding certain thresholds must pay an excise tax equal to 40% of the value of the plan that exceeds the threshold amount. As a result of the excise tax, the Company has recorded \$2 million in its OPEB liability as of both December 31, 2018 and 2017 with a corresponding adjustment to AOCL, net of tax.

The Company provides contributions to certain international benefit plans; however, these contributions are not material for the periods presented.

For all pension and OPEB plans in which employees participate, costs are determined within the FASB's authoritative accounting guidance set forth on employers' defined benefit pensions including accounting for settlements and curtailments of defined benefit pension plans, termination of benefits and accounting for post-retirement benefits other than pensions. In accordance with the authoritative accounting guidance, the Company recognizes the funded status of its defined benefit pension plans and OPEB plan in its Consolidated Balance Sheets with a corresponding adjustment to AOCL, net of tax.

Table of Contents

Information about the net periodic benefit cost (credit) and other changes recognized in AOCL for the pension and post-retirement benefit plans is as follows (dollars in millions):

	Pension Plans			Post-retirement Benefits		
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Net Periodic Benefit Cost (Credit):						
Service cost	\$12	\$ 12	\$ 13	\$1	\$ 2	\$ 2
Interest cost	6	6	6	4	6	7
Expected return on assets	(8)	(7)	(7)	—	—	—
Prior service credit	—	—	—	(13)	(4)	(4)
Net Periodic Benefit Cost (Credit)	\$10	\$ 11	\$ 12	\$(8)	\$ 4	\$ 5
Other changes recognized in other comprehensive income:						
Prior service cost (credit)	\$—	\$ 1	\$ (5)	\$—	\$ (73)	\$ —
Net (gain) loss	(2)	8	8	(12)	24	(11)
Amortizations	—	—	—	13	4	4
Total recognized – other comprehensive income	\$(2)	\$ 9	\$ 3	\$1	\$ (45)	\$ (7)

The components of net periodic benefit costs other than the service cost component are included in Other income (expense), net in the Consolidated Statements of Comprehensive Income.

The table below provides the weighted-average actuarial assumptions used to determine the net periodic benefit cost (credit).

	Pension Plans			Post-retirement Benefits		
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Discount rate	3.50%	4.10 %	4.40 %	3.60%	4.30 %	4.60 %
Rate of compensation increase (salaried)	3.00%	3.00 %	3.00 %	N/A	N/A	N/A
Expected return on assets	4.50%	4.70 %	4.70 %	N/A	N/A	N/A

The table below provides the weighted-average actuarial assumptions used to determine the benefit obligations of the Company's plans.

	Pension Plans		Post-retirement Benefits	
	As of December 31,			
	2018	2017	2018	2017
Discount rate	4.20%	3.50%	4.20 %	3.60 %
Rate of compensation increase (salaried)	3.00%	3.00%	N/A	N/A

Table of Contents

The Company's pension and OPEB costs are calculated using 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, mortality rates and other factors. The Company reviews all actuarial assumptions on an annual basis.

The discount rate is used to determine the present value of the Company's benefit obligations. The Company's 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, 2018.

The overall expected rate of return on plan assets is based upon historical and expected future returns consistent with the expected benefit duration of the plan for each asset group adjusted for investment and administrative fees.

Health care cost trends are used to project future post-retirement benefits payable from the Company's plans. For the Company's December 31, 2018 obligations, future post-retirement medical care costs and prescription drug costs were forecasted assuming an initial annual increase of 5.20%, decreasing to 4.50% by the year 2036.

As health care costs trends have a significant effect on the amounts reported, an increase and decrease of one-percentage-point would have the following effects in the year ended December 31, 2018 (dollars in millions):

	1% Increase	1% Decrease
Effect on total of service and interest cost	\$ 1	\$ (1)
Effect on post-retirement benefit obligation	\$ 13	\$ (11)

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

The following table provides a reconciliation of the changes in the net benefit obligations and fair value of plan assets for the years ended December 31, 2018, 2017 and 2016 (dollars in millions):

	Pension Plans			Post-retirement Benefits		
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Benefit Obligations:						
Net benefit obligation at beginning of year	\$ 181	\$ 155	\$ 140	\$ 102	\$ 144	\$ 147
Service cost	12	12	13	1	2	2
Interest cost	6	6	6	4	6	7
Plan Amendments	—	1	(5)	—	(73)	—
Benefits paid	(6)	(7)	(7)	(2)	(2)	(1)
Actuarial (gain) loss	(16)	14	8	(12)	25	(11)
Net benefit obligation at end of year	\$ 177	\$ 181	\$ 155	\$ 93	\$ 102	\$ 144
Fair Value of Plan Assets:						
Fair value of plan assets at beginning of year	\$ 188	\$ 150	\$ 140	\$ —	\$ —	\$ —
Actual return on plan assets	(6)	14	6	—	—	—
Employer contributions	20	31	11	2	2	1
Benefits paid	(6)	(7)	(7)	(2)	(2)	(1)
Fair value of plan assets at end of year	\$ 196	\$ 188	\$ 150	\$ —	\$ —	\$ —
Net Funded Status	\$ 19	\$ 7	\$ (5)	\$ (93)	\$ (102)	\$ (144)

The Company's OPEB plan was amended to reflect certain limitations on participants' annual benefits that were included in the new collective bargaining agreement ratified by International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") Local 933 in December 2017.

The Company's pension plan assets mostly consist of diversified equity securities and diversified debt securities. The fair values of plan assets for the Company's pension plans as of December 31, 2018 and 2017 are as follows (dollars in millions):

	Fair Value Measurements Using					
	Quoted Prices in Active Markets for Significant Assets (Level 1)			Other Observable Inputs (Level 2)		TOTAL
	2018	2017	2018	2017	2018	2017
Diversified debt securities	\$ 9	\$ 26	\$ 156	\$ 128	\$ 165	\$ 154
Diversified equity securities	20	20	8	8	28	28
Cash equivalents	3	6	—	—	3	6
Total	\$ 32	\$ 52	\$ 164	\$ 136	\$ 196	\$ 188

Table of Contents

The Company's investment strategy with respect to pension plan assets is to invest the assets in accordance with laws and regulations. The long-term primary objectives for the Company's pension assets are to provide results that meet or exceed the plans' actuarially assumed long-term rate of return without subjecting the funds to undue risk. To achieve these objectives the Company has established the following targets:

Asset Category	Target	
	Hourly Salary	
Cash equivalents	2 %	2 %
Diversified equity securities	15	15
Diversified debt securities	83	83
Total	100%	100 %

Through 2018, the Company's investment committee has continued to evaluate the investments and take steps toward the established targets.

The following table discloses the amounts recognized in the balance sheet and in AOCL at December 31, 2018 and 2017, on a pre-tax basis (dollars in millions):

	Pension Plans		Post-retirement Benefits	
	As of December 31,			
	2018	2017	2018	2017
Amounts Recognized in Balance Sheet:				
Noncurrent assets	\$ 19	\$ 7	\$ —	\$ —
Current liabilities	—	—	(3)	(3)
Noncurrent liabilities	—	—	(90)	(99)
Total asset (liability)	\$ 19	\$ 7	\$ (93)	\$ (102)
Accumulated Other Comprehensive Loss:				
Prior service credit	\$ 3	\$ 4	\$ 71	\$ 84
Actuarial (loss) gain	(8)	(11)	2	(10)
Total	\$(5)	\$(7)	\$ 73	\$ 74

The amounts in AOCL expected to be amortized and recognized as a component of net periodic benefit cost in 2019 are as follows (dollars in millions):

	2019	
	Pension Plans	Post-retirement Benefits
Prior service credit	\$ 1	\$ 13
Actuarial loss	(1)	—
Total	\$—	\$ 13

The accumulated benefit obligation for the Company's pension plans as of December 31, 2018 and 2017 was \$173 million and \$177 million, respectively.

As of December 31, 2018 and 2017, the hourly defined benefit pension plan had plan assets greater than the projected benefit obligation and the accumulated benefit obligation. As of December 31, 2018 and 2017, the salary defined benefit pension plan had plan assets greater than the projected benefit obligation and accumulated benefit obligation.

Table of Contents

Information about expected cash flows for the Company's pension and post-retirement benefit plans is as follows (dollars in millions):

	Pension Plans	Post-retirement Benefits
Employer Contributions:		
2019 expected contributions \$	—\$	3
Expected Benefit Payments:		
2019	8	3
2020	10	4
2021	11	4
2022	12	5
2023	13	5
2024-2028	67	26

Expected benefit payments for pension and post-retirement benefits will be paid from plan trusts or corporate assets. The Company's funding policy is to contribute amounts annually that are at least equal to the amounts required by applicable laws and regulations or to directly fund payments to plan participants. Additional discretionary contributions will be made when deemed appropriate to meet the Company's long-term obligation to the plans.

In June 2012, the Company established a non-qualified deferred compensation plan ("Deferred Compensation Plan") for a select group of management. Under the terms of the plan, the Company has utilized a rabbi trust to accumulate assets to fund its promise to pay benefits under the Deferred Compensation Plan. The rabbi trust is an irrevocable trust, which restricts any use of funds (operational or otherwise) by the Company other than to pay benefits under the Deferred Compensation Plan, and prevents immediate taxation of contributed amounts. Funds are accumulated through both employee deferrals and a Company match. Funds can be invested by the employee into a diversified group of investment options, which have been selected by the Company's investment committee, that are all categorized as Level 1 in the fair value hierarchy. The Company match resulted in no charge to the Consolidated Statements of Comprehensive Income for each of the years ended December 31, 2018, 2017 and 2016, and the fair value of the rabbi trust plan assets and deferred compensation obligation was \$9 million and \$8 million as of December 31, 2018 and 2017, respectively.

Table of Contents

NOTE 15. INCOME TAXES

Income before income taxes included the following (dollars in millions):

	Years ended December 31,		
	2018	2017	2016
U.S. income	\$ 755	\$ 491	\$ 309
Foreign income	50	36	32
Total	\$ 805	\$ 527	\$ 341

The provision for income tax expense was estimated as follows (dollars in millions):

	Years ended December 31,		
	2018	2017	2016
Estimated current income taxes:			
U.S. federal	\$ 94	\$ 61	\$ 2
Foreign	9	7	8
U.S. state and local	11	5	2
Total Current	114	73	12
Deferred income tax expense (credit), net:			
U.S. federal	45	(44)	107
Foreign	—	1	—
U.S. state and local	7	(7)	7
Total Deferred	52	(50)	114
Total income tax expense	\$ 166	\$ 23	\$ 126

On December 22, 2017, the U.S. Tax Cuts and Jobs Act was enacted into law. The U.S. Tax Cuts and Jobs Act made broad and complex changes to the U.S. tax code that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. It also included a one-time deemed repatriation tax on undistributed foreign earnings and profits.

On December 22, 2017, the United States Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provided guidance on accounting for the tax effects of the U.S. Tax Cuts and Jobs Act. The Company recognized the income tax effects of the U.S. Tax Cuts and Jobs Act for the year ended December 31, 2017, the reporting period in which it was signed into law, in accordance with SAB 118. As of December 31, 2018, the Company has completed its accounting for the tax effects of the U.S. Tax Cuts and Jobs Act.

In accordance with SAB 118, the Company recorded a deferred tax benefit of \$157 million related to the re-measurement of certain deferred tax assets and liabilities and \$5 million of tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings and profits for the year ended December 31, 2017. The total net benefit of \$152 million was deemed a reasonable estimate of the impact of the U.S. Tax Cuts and Jobs Act for the Company as of December 31, 2017.

During the year ended December 31, 2018, the Company finalized its accounting for the enactment of the U.S. Tax Cuts and Jobs Act which resulted in a deferred tax benefit of \$160 million related to the re-measurement of certain deferred tax assets and liabilities and \$6 million of tax expense in connection with the transition tax on the mandatory deemed repatriation of foreign earnings and profits for a total net benefit of \$154 million. The change in total net benefit of \$2 million is incorporated into the Company’s income tax expense for the year ended December 31, 2018. The Company concluded that no material adjustments were required from the previous reasonable estimate related to the U.S. Tax Cuts and Jobs Act.

Table of Contents

A reconciliation of the provision for income tax expense compared with the amounts at the U.S. federal statutory rate is as follows (dollars in millions):

	Years ended		
	December 31,		
	2018	2017	2016
Tax at U.S. statutory income tax rate	\$169	\$185	\$120
State tax expense	15	10	6
Non-deductible expenses	(9)	7	5
Foreign rate differential	(4)	(5)	(5)
Effect of tax rate changes	(4)	—	—
Tax credits	(3)	(21)	—
Valuation allowance	2	3	1
Impact related to U.S. Tax Cuts and Jobs Act	—	(155)	—
Other adjustments	—	(1)	(1)
Total income tax expense	\$166	\$23	\$126

The effective tax rate for the year ended December 31, 2018 was 21%, as compared with 4% in 2017. The higher rate is principally due to the one-time tax benefit recorded in 2017 in connection with the U.S. Tax Cuts and Jobs Act.

Deferred income tax assets and liabilities as of December 31, 2018 and 2017 reflect the effect of temporary differences between amounts of assets, liabilities and equity for financial reporting purposes and the bases of such assets, liabilities and equity as measured by tax laws, as well as tax loss and tax credit carry forwards. Net deferred tax assets and liabilities are classified as non-current in the consolidated statements of financial position. As described above, the deferred tax assets and liabilities are measured based on the enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

The Company has not recognized any deferred tax liabilities associated with earnings in foreign subsidiaries, except for its subsidiaries located in China and Hong Kong, as they are intended to be permanently reinvested and used to support foreign operations. The Company has recorded a deferred tax liability of \$2 million for the tax liability associated with the remittance of previously taxed income and unremitted earnings for its subsidiaries located in China and Hong Kong. The U.S. Tax Cuts and Jobs Act requirement of a one-time repatriation tax on foreign earnings and profits resulted in the Company recording a \$6 million liability for the deemed repatriation to be paid to the U.S. Government. In the future, the U.S. Tax Cuts and Jobs Act provides for tax free repatriations of earnings and profits generated by foreign subsidiaries through a 100% dividends received deduction. The remaining deferred tax liabilities, if recorded, related to unremitted earnings that are indefinitely reinvested are not material.

Table of Contents

Temporary differences and carryforwards that gave rise to deferred tax assets and liabilities included the following (dollars in millions):

	As of December 31, 2018	As of December 31, 2017	
Deferred tax assets:			
Intangibles	\$ 29	\$ 35	
Deferred revenue	24	25	
Other accrued liabilities	20	18	
Warranty accrual	14	11	
Operating loss carryforwards	10	12	
Sales allowances and rebates	8	6	
Stock-based compensation	5	6	
Technology-related investments	5	4	
Inventories	4	5	
Capital loss carryforwards	3	3	
Environmental remediation	3	3	
Unrealized loss on interest rate derivatives	1	1	
Tax credits	1	—	
Other	2	4	
Total Deferred tax assets	129	133	
Valuation allowances	(10) (9)
Deferred tax liabilities:			
Goodwill	(311) (287)
Trade name	(114) (96)
Property, plant and equipment	(10) (7)
Post-retirement	(9) (4)
Other	(2) (3)
Total Deferred tax liabilities	(446) (397)
Net Deferred tax liability	\$ (327) \$ (273)

The estimated net operating loss carryforwards as of December 31, 2018 relate solely to U.S. state net operating loss carryforwards.

Substantially all state operating loss carryforwards will not expire until 2028-2031.

Management has determined, based on an evaluation of available objective and subjective evidence, that it is more likely than not that certain foreign deferred tax assets and an anticipated capital loss carryforward will not be realized; therefore these deferred tax assets are offset with a valuation allowance of \$10 million and \$9 million as of December 31, 2018 and 2017, respectively.

Table of Contents

In accordance with the FASB's authoritative accounting guidance on accounting for income taxes, the Company records uncertain tax positions on the basis of a two-step process whereby (1) it is determined whether it is more likely than not that the tax position will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority. Based upon this process, the Company has recognized a liability for uncertain tax benefits as of December 31, 2018 and 2017. Management does not anticipate any material changes in the balance in 2019. The change in the liability for unrecognized tax benefits are as follows (dollars in millions):

December 31, 2016	\$2
Increases in unrecognized tax benefits as a result of current year activity	—
December 31, 2017	\$2
Increases in unrecognized tax benefits as a result of current year activity	—
December 31, 2018	\$2

For the years ended December 31, 2018, 2017 and 2016, the Company recognized no interest and penalties in the Consolidated Statements of Comprehensive Income because either no uncertain tax positions were identified or the penalties and interest anticipated were not material in all the periods presented. The Company follows a policy of recording any interest or penalties in Income tax expense. Management does not anticipate any significant changes in unrecognized tax benefits in 2019. There was \$2 million as of both December 31, 2018 and 2017 of unrecognized tax benefits that, if recognized, would affect the annual effective tax rate. All of the Company's returns, once filed, will remain subject to examination by the various taxing authorities for the duration of the applicable statute of limitations (generally three years from the earlier of the date of filing or the due date of the return).

Table of Contents

NOTE 16. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in components of AOCL consisted of the following (dollars in millions):

	Before Tax	Tax (Expense) Benefit	After Tax
Balance at December 31, 2015	\$ (17)	\$ (42)	\$ (59)
Foreign currency translation	(6)	—	(6)
Pension and OPEB liability adjustment	4	(2)	2
Available-for-sale securities	(1)	1	—
Net current period other comprehensive loss	\$ (3)	\$ (1)	\$ (4)
Balance at December 31, 2016	\$ (20)	\$ (43)	\$ (63)
Foreign currency translation	15	—	15
Pension and OPEB liability adjustment	34	(8)	26
Available-for-sale securities	11	(4)	7
Net current period other comprehensive income	\$ 60	\$ (12)	\$ 48
Balance at December 31, 2017	\$ 40	\$ (55)	\$ (15)
Foreign currency translation	(9)	—	(9)
Pension and OPEB liability adjustment	1	—	1
Available-for-sale securities and interest rate swaps	(9)	2	(7)
Net current period other comprehensive loss	\$ (17)	\$ 2	\$ (15)
Balance at December 31, 2018	\$ 23	\$ (53)	\$ (30)

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

		For the year ended December 31, 2016
		Amount
AOCL Components	Amount	Affected line item in the consolidated statements of comprehensive income
Amortization of OPEB items:		
Prior service credit	\$3	Cost of sales
Actuarial gain	1	Cost of sales
Total reclassifications, before tax	4	Income before income taxes
Income tax expense	(2)	Income tax expense
Total reclassifications	\$2	Net of tax
		For the year ended December 31, 2017
		Amount
AOCL Components	Amount	Affected line item in the consolidated statements of comprehensive income
Amortization of OPEB items:		
Prior service credit	\$3	Cost of sales
	1	Selling, general and administrative
Total reclassifications, before tax	4	Income before income taxes
Income tax expense	(1)	Income tax expense
Total reclassifications	\$3	Net of tax

Table of Contents

	For the year ended December 31, 2018	
AOCL Components	Amount	Affected line item in the consolidated reclassified from statements of comprehensive income
Amortization of OPEB items:		
Prior service credit	\$ 13	Other income (expense), net
Total reclassifications, before tax	13	Income before income taxes
Income tax expense	(3)	Income tax expense
Total reclassifications	\$ 10	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 14 "Employee Benefit Plans" for additional details.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain facilities and equipment under various operating leases. Rent expense under the non-cancelable operating leases was \$5 million for each of the years ended December 31, 2018, 2017 and 2016. Certain leases contain renewal options.

As of December 31, 2018, future payments under non-cancelable operating leases are as follows over each of the next five years and thereafter (dollars in millions):

2019	\$ 4
2020	3
2021	2
2022	1
2023	1
Thereafter	—
Total	\$ 11

Environmental Matters

The Company has an agreement with the Environmental Protection Agency to perform remedial activities at the Company's Indianapolis, Indiana manufacturing facilities related to historical soil and groundwater contamination. As of December 31, 2018, the Company had a liability recorded in the amount of \$12 million.

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 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.

Table of Contents**NOTE 18. CONCENTRATION OF RISK**

As of December 31, 2018 and 2017, the Company employed approximately 2,900 and 2,700 employees, respectively, with 90% and 89%, respectively, of those employees in the U.S. Approximately 59% of the Company's U.S. employees were represented by unions and subject to a collective bargaining agreement as of both December 31, 2018 and 2017. In addition, many of the hourly employees outside the U.S. are represented by various unions. The Company is currently operating under a collective bargaining agreement with UAW Local 933 that expires in November 2023.

Two customers accounted for greater than 10% of net sales within the last three years presented.

	Years ended December 31,		
% of net sales	2018	2017	2016
Daimler AG	18 %	20 %	21 %
PACCAR Inc.	10 %	9 %	9 %

No other customers accounted for more than 10% of net sales of the Company during the years ended December 31, 2018, 2017 or 2016.

Three customers accounted for greater than 10% of outstanding accounts receivable within the last two years presented.

	As of		As of	
% of accounts receivable	December 31,		December 31,	
	2018		2017	
Daimler AG	18	%	7	%
Volvo Group	11	%	11	%
Kirby Corporation	9	%	15	%

No other customers accounted for more than 10% of the outstanding accounts receivable as of December 31, 2018 or December 31, 2017.

No supplier accounted for greater than 10% of materials purchased during the years ended December 31, 2018, 2017 or 2016.

NOTE 19. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**Repurchase of Common Stock held by ValueAct Capital Master Fund**

On February 3, 2017, the Company entered into a stock repurchase agreement with ValueAct Capital Master Fund, L.P., a related party, to repurchase 10,525,204 shares of the Company's common stock for approximately \$363 million. The shares were repurchased under the stock repurchase program approved by the Board of Directors in November 2016. The purchase closed on February 8, 2017 and was funded with cash on hand and borrowings under the Revolving Credit Facility. The shares were subsequently retired.

NOTE 20. COMMON STOCK

The Company's current stock repurchase program ("Repurchase Program") was announced on November 14, 2016 when the Board of Directors authorized the Company to repurchase up to \$1,000 million of its common stock on the open market or through privately negotiated transactions. On November 8, 2017, the Board of Directors authorized the Company to repurchase an additional \$500 million of its common stock, and on July 30, 2018, the Board of Directors authorized the Company to repurchase an additional \$500 million of its common stock, bringing the total amount authorized under the Repurchase Program to \$2,000 million. Also on July 30, 2018, the Board of Directors removed the termination date of the Repurchase Program. The timing and amount of stock purchases are subject to market conditions and corporate needs. The Repurchase Program may be modified, suspended or discontinued at any time at the Company's discretion.

During 2018, the Company repurchased approximately \$609 million of its common stock under the Repurchase Program. All transactions during 2018 were settled in cash during the same period.

Table of Contents

NOTE 21. 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 and compensation cost for future service that the Company has not yet recognized. During the years ended December 31, 2018, 2017 and 2016, there were no outstanding stock options excluded from the diluted EPS calculation because they were anti-dilutive. Basic and diluted EPS for the full-year is calculated using the weighted average shares of common stock outstanding during the year while quarterly basic and diluted EPS is calculated using the weighted average shares of common stock outstanding during the quarter; therefore, the sum of the four quarters’ EPS may not equal full-year EPS. The following table reconciles the numerators and denominators used to calculate basic EPS and diluted EPS (in millions, except per share data):

	Years ended December 31,		
	2018	2017	2016
Net income	\$639	\$504	\$215
Weighted average shares of common stock outstanding	133	149	168
Dilutive effect stock-based awards	1	1	1
Diluted weighted average shares of common stock outstanding	134	150	169
Basic earnings per share attributable to common stockholders	\$4.81	\$3.38	\$1.28
Diluted earnings per share attributable to common stockholders	\$4.78	\$3.36	\$1.27

90

Table of Contents

NOTE 22. GEOGRAPHIC INFORMATION

The Company had the following net sales by country (dollars in millions):

	Years ended		
	December 31,		
	2018	2017	2016
United States	\$1,922	\$1,614	\$1,277
China	127	62	50
Canada	104	125	115
Japan	101	75	70
Mexico	57	39	41
Germany	55	45	53
United Kingdom	55	36	28
France	40	21	16
Sweden	30	13	8
Netherlands	25	30	27
Other	197	202	155
Total	\$2,713	\$2,262	\$1,840

The Company had the following net long-lived assets by country (dollars in millions):

	Years ended December 31,		
	2018	2017	2016
United States	\$ 427	\$ 400	\$ 412
India	24	32	36
Hungary	11	12	11
Other	4	4	5
Total	\$ 466	\$ 448	\$ 464

Table of Contents

NOTE 23. QUARTERLY FINANCIAL INFORMATION

The following is a summary of the unaudited quarterly results of operations. The Company believes that all adjustments considered necessary for a fair presentation in accordance with GAAP have been included (unaudited, in millions, except per share data).

	Quarters ended,			
	March	June 30	September 30	December 31
2018				
Net sales	\$663	\$ 711	\$ 692	\$ 647
Gross profit	342	374	368	338
Operating income	222	248	246	207
Income before income taxes	191	222	218	174
Net income	151	174	167	147
Basic earnings per share	\$1.09	\$ 1.30	\$ 1.28	\$ 1.15
Diluted earnings per share	\$1.08	\$ 1.29	\$ 1.27	\$ 1.14
2017				
Net sales	\$499	\$ 580	\$ 595	\$ 588
Gross profit	251	290	302	288
Operating income	149	177	198	128
Income before income taxes	127	146	170	84
Net income	83	95	111	215
Basic earnings per share	\$0.53	\$ 0.63	\$ 0.75	\$ 1.52
Diluted earnings per share	\$0.52	\$ 0.63	\$ 0.75	\$ 1.51

Table of Contents

Allison Transmission Holdings, Inc.
 Schedule I—Parent Company only Balance Sheets
 (dollars in millions)

	December	December
	31, 2018	31, 2017
ASSETS		
Current Assets:		
Cash	\$ —	\$ —
Total Current Assets	—	—
Investments in and advances to subsidiaries	659	689
TOTAL ASSETS	\$ 659	\$ 689
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ —	\$ —
Total Current Liabilities	—	—
Capital stock	1	1
Paid in capital	1,788	1,758
Treasury stock	—	—
Accumulated deficit	(1,100)	(1,055)
Accumulated other comprehensive loss, net of tax	(30)	(15)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 659	\$ 689

The accompanying note is an integral part of the Parent Company only financial statements.

Table of Contents

Allison Transmission Holdings, Inc.
 Schedule I—Parent Company only Statements of Comprehensive Income
 (dollars in millions)

	Years ended December 31,		
	2018	2017	2016
Net sales	\$ —	\$ —	\$ —
General and administrative fees	—	—	—
Total operating income	—	—	—
Other income:			
Equity earnings of consolidated subsidiary	639	504	215
Income before income taxes	639	504	215
Income tax expense	—	—	—
Net income	\$ 639	\$ 504	\$ 215
Comprehensive income	\$ 624	\$ 552	\$ 211

The accompanying note is an integral part of the Parent Company only financial statements.

Table of Contents

Allison Transmission Holdings, Inc.
 Schedule I—Parent Company only Statements of Cash Flows
 (dollars in millions)

	Years ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 639	\$ 504	\$ 215
Deduct items included in net income not providing cash:			
Equity in earnings in consolidated subsidiary	(639)	(504)	(215)
Net cash provided by operating activities	—	—	—
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in subsidiaries	(22)	(19)	(24)
Dividends	80	89	100
Net cash provided by investing activities	58	70	76
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contributions	22	19	24
Dividends	(80)	(89)	(100)
Net cash used in financing activities	(58)	(70)	(76)
Net increase (decrease) during period	—	—	—
Cash and cash equivalents at beginning of period	—	—	—
Cash and cash equivalents at end of period	\$ —	\$ —	\$ —

The accompanying note is an integral part of the Parent Company only financial statements.

Table of Contents

Allison Transmission Holdings, Inc.
Schedule I—Parent Company only Footnote

NOTE 1—BASIS OF PRESENTATION

Allison Transmission Holdings, Inc. (the “Parent Company”) is a holding company that conducts all of its business operations through its subsidiaries. There are restrictions on the Parent Company’s ability to obtain funds from its subsidiaries through dividends (refer to NOTE 8 “Debt” of Notes to Consolidated Financial Statements). The entire amount of our consolidated net assets was subject to restrictions on payment of dividends at the end of December 31, 2018, 2017 and 2016. Accordingly, these financial statements have been presented on a “parent-only” basis. Under a parent-only presentation, the Parent Company’s investments in its consolidated subsidiaries are presented under the equity method of accounting. These parent-only financial statements should be read in conjunction with Allison Transmission Holdings, Inc.’s audited Consolidated Financial Statements included elsewhere herein.

Table of Contents

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. 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 December 31, 2018. 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 December 31, 2018, the end of the period covered by this Annual Report on Form 10-K, 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 SEC 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2018. PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2018. Their report is included in Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

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 quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

Table of Contents

PART III.

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this Item concerning our executive officers, directors and nominees for director, Audit Committee members and financial expert(s) and disclosure of delinquent filers under Section 16(a) of the Exchange Act is incorporated herein by reference from our definitive Proxy Statement for our 2019 annual meeting of stockholders which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Code of Business Conduct

We have adopted the Allison Code of Business Conduct that applies to all of our directors and officers and other employees, including our principal executive officer, principal financial officer and principal accounting officer. This code is publicly available through the Investor Relations section of our website at www.allisontransmission.com. We will post on the Investor Relations section of our website any amendment to the Allison Code of Business Conduct, or any grant of a waiver from a provision of the Allison Code of Business Conduct.

ITEM 11. Executive Compensation

The information required by this Item concerning remuneration of our executive officers and directors, material transactions involving such executive officers and directors and Compensation Committee interlocks, as well as the Compensation Committee Report and pay ratio disclosure, are incorporated herein by reference to our definitive Proxy Statement for our 2019 annual meeting of stockholders which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item concerning the stock ownership of management, five percent beneficial owners and securities authorized for issuance under equity compensation plans is incorporated herein by reference to our definitive Proxy Statement for our 2019 annual meeting of stockholders which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item concerning certain relationships and related person transactions, and director independence is incorporated herein by reference to our definitive Proxy Statement for our 2019 annual meeting of stockholders which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 14. Principal Accounting Fees and Services

The information required by this Item concerning the fees and services of our independent registered public accounting firm and our Audit Committee actions with respect thereto is incorporated herein by reference to our definitive Proxy Statement for our 2019 annual meeting of stockholders which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

Table of Contents

PART IV.

ITEM 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements.

The response to this item is included in Part II, Item 8 of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules.

Schedule I – Parent Company only Balance Sheets as of the years ended December 31, 2018 and 2017, Schedule I – Parent Company only Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, Schedule I – Parent Company only Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016 and Schedule I – Parent Company only Footnote are included in Part II, Item 8 of this Annual Report on Form 10-K. All other schedules have been omitted because they are not required or because the information required is included in the consolidated financial statements and notes thereto.

(a)(3) Exhibits

See the response to Item 15(b) below.

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

(b) Exhibits

The following exhibits are filed as part of, or are incorporated by reference into, this Annual Report on Form 10-K:

Exhibit No.	DESCRIPTION OF EXHIBIT
3.1	<u>Second Amended and Restated Certificate of Incorporation of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed April 26, 2012 (File No. 001-35456))</u>
3.2	<u>Amendment to Second Amended and Restated Certificate of Incorporation of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed May 18, 2016)</u>
3.3	<u>Fifth Amended and Restated Bylaws of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed May 18, 2016)</u>
4.1	<u>Form of Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed June 17, 2011 (File No. 333-172932))</u>
4.2	<u>Indenture, dated as of September 23, 2016, between the Issuer and Wilmington Trust, National Association, as Trustee (including the form of 5.0% Senior Notes due 2024) (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed September 23, 2016)</u>
4.3	<u>Indenture, dated as of September 26, 2017, between the Issuer and Wilmington Trust, National Association, as Trustee (including form of 4.75% Senior Notes due 2027) (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed September 26, 2017)</u>
10.1	<u>Amended and Restated Credit Agreement among Allison Transmission Holdings, Inc., Allison Transmission, Inc., as Borrower, the several lenders from time to time parties thereto, and Citicorp North America, Inc., as Administrative Agent, dated as of September 23, 2016 (incorporated by reference to Exhibit B of Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 23, 2016)</u>
10.2	<u>Guarantee And Collateral Agreement made by Allison Transmission Holdings, Inc., Allison Transmission, Inc., as Borrower, and the Subsidiary Guarantors party thereto in favor of Citicorp North America, Inc., as Administrative Agent, dated as of August 7, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 filed March 18, 2011 (File No. 333-172932))</u>
10.3	<u>Trademark Security Agreement made by Allison Transmission, Inc. in favor of Citicorp North America, Inc., as Administrative Agent, dated as of August 7, 2007 (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 filed March 18, 2011 (File No. 333-172932))</u>
10.4	<u>Copyright Security Agreement made by Allison Transmission, Inc. in favor of Citicorp North America, Inc., as Administrative Agent, dated as of August 7, 2007 (incorporated by reference to Exhibit 10.5 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed May 16, 2011 (File No. 333-172932))</u>
10.5	<u>Consent Agreement to the Credit Agreement, dated as of March 12, 2014, 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 party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 14, 2014)</u>
100	

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

10.6	<u>Amendment No. 1, dated March 24, 2017, to the Amended and Restated Credit Agreement, dated as of September 23, 2016, 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 party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 24, 2017)</u>
10.7	<u>Incremental Facility Joinder Agreement, dated as of September 26, 2017, supplementing the Amended and Restated Credit Agreement, dated as of September 23, 2016, 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 and Citicorp North America, Inc., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 26, 2017)</u>
10.8	<u>Amendment No. 2, dated March 21, 2018 to the Amended and Restated Credit Agreement, dated as of September 23, 2016, 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 party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 21, 2018)</u>
10.9*	<u>Allison Transmission Holdings, Inc. 2015 Equity Incentive Award Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed April 2, 2015)</u>
10.10*	<u>Allison Transmission Holdings, Inc. 2016 Incentive Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A filed April 2, 2015)</u>
10.11*	<u>Form of 2015 Equity Incentive Award Plan Restricted Stock Agreement (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 filed February 19, 2016)</u>
10.12*	<u>Form of 2015 Equity Incentive Award Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 filed February 19, 2016)</u>
10.13*	<u>Form of 2015 Equity Incentive Award Plan Stock Option Agreement (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 filed February 19, 2016)</u>
10.14*	<u>Form of 2015 Equity Incentive Award Plan Performance Stock Unit Agreement (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 filed February 24, 2017)</u>
10.15*	<u>Allison Transmission Holdings, Inc. 2011 Equity Incentive Award Plan (incorporated by reference to Exhibit 10.10 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed June 17, 2011 (File No. 333-172932))</u>
10.16*	<u>Form of 2011 Equity Incentive Award Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.12 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed June 17, 2011 (File No. 333-172932))</u>
10.17*	<u>Form of 2011 Equity Incentive Award Plan Stock Option Agreement (incorporated by reference to Exhibit 10.13 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 filed June 17, 2011 (File No. 333-172932))</u>
101	

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

- 10.18* Form Amendment to Stock Option Agreement under the Allison Transmission Holdings, Inc. 2011 Equity Incentive Award Plan and Equity Incentive Plan of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 10.27 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 filed July 30, 2013 (File No. 001-35456))
- 10.19* Form of 2011 Equity Incentive Award Plan Stock Option Agreement (incorporated by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 filed October 29, 2013 (File No. 001-35456))
- 10.20* Equity Incentive Plan of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 10.14 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed May 16, 2011 (File No. 333-172932))
- 10.21* Form of Employee Stock Option Agreement under Equity Incentive Plan of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 10.15 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed May 16, 2011 (File No. 333-172932))
- 10.22* Form Amendment to Stock Option Agreement under Equity Incentive Plan of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on February 28, 2013 (File No. 001-35456))
- 10.23* Deferred Compensation Plan of Allison Transmission Inc. (incorporated by reference to Exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed July 31, 2012)
- 10.24* Fourth Amended and Restated Non-Employee Director Compensation Policy (filed herewith)
- 10.25* Amended and Restated Non-Employee Director Deferred Compensation Plan of Allison Transmission Holdings, Inc. (incorporated by reference to Exhibit 10.38 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 filed April 28, 2015)
- 10.26* Form of Allison Transmission Holdings, Inc. Indemnification Agreement (incorporated by reference to Exhibit 10.9 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 filed May 16, 2011 (File No. 333-172932))
- 10.27* Form of Change in Control Severance Agreement (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 24, 2014)
- 10.28* Employment Agreement, between Allison Transmission, Inc. and Lawrence E. Dewey, dated as of December 21, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 21, 2016)
- 10.29* Severance and Change in Control Agreement, between Allison Transmission, Inc. and David S. Graziosi, dated as of March 23, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 23, 2018)
- 14.1 Code of Business Conduct (filed herewith)
- 21.1 List of Subsidiaries of Allison Transmission Holdings, Inc. (filed herewith)
- 23.1 Consent of PricewaterhouseCoopers LLP (filed herewith)

102

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

31.1	<u>Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
31.2	<u>Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
32.1	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
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

103

Table of Contents

ITEM 16. Form 10-K Summary
Intentionally left blank.

104

Edgar Filing: VERTICALNET INC - Form S-3

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

Date: February 26, 2019 By: /s/ David S. Graziosi
David S. Graziosi
President and Chief Executive Officer (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURES	CAPACITY	DATE
/s/ David S. Graziosi David S. Graziosi	Director, President and Chief Executive Officer (Principal Executive Officer)	February 26, 2019
/s/ G. Frederick Bohley G. Frederick Bohley	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	February 26, 2019
/s/ Lawrence E. Dewey Lawrence E. Dewey	Chairman of the Board	February 26, 2019
/s/ Judy Altmaier Judy Altmaier	Director	February 26, 2019
/s/ Stan A. Askren Stan A. Askren	Director	February 26, 2019
/s/ David C. Everitt David C. Everitt	Director	February 26, 2019
/s/ Alvaro Garcia-Tunon Alvaro Garcia-Tunon	Director	February 26, 2019
/s/ William R. Harker William R. Harker	Director	February 26, 2019
/s/ Carolann I. Haznedar Carolann I. Haznedar	Director	February 26, 2019
/s/ Richard P. Lavin Richard P. Lavin	Director	February 26, 2019
/s/ Thomas W. Rabaut Thomas W. Rabaut	Director	February 26, 2019
/s/ Richard V. Reynolds Richard V. Reynolds	Director	February 26, 2019