

ALCOA INC
Form 10-Q
April 26, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2006

OR

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

Commission File Number 1-3610

ALCOA INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State of incorporation)

25-0317820
(I.R.S. Employer Identification No.)

390 Park Avenue, New York, New York
(Address of principal executive offices)

10022-4608
(Zip code)

Investor Relations 212-836-2674

Office of the Secretary 412-553-4707

(Registrant's telephone number including area code)

Edgar Filing: ALCOA INC - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of April 24, 2006, 870,100,615 shares of common stock, par value \$1.00 per share, of the registrant were outstanding.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.****Alcoa and subsidiaries****Condensed Consolidated Balance Sheet (unaudited)****(in millions)**

	March 31	December 31
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 459	\$ 762
Receivables from customers, less allowances of \$81 in 2006 and \$80 in 2005	3,380	2,914
Other receivables	411	427
Inventories (J)	3,778	3,446
Fair value of derivative contracts	465	520
Prepaid expenses and other current assets	889	713
Total current assets	9,382	8,782
Properties, plants, and equipment, at cost	27,507	26,944
Less: accumulated depreciation, depletion, and amortization	14,016	13,787
Net properties, plants, and equipment	13,491	13,157
Goodwill	6,262	6,249
Investments	1,644	1,370
Other assets	4,115	4,090
Assets held for sale (H)	35	48
Total assets	\$ 34,929	\$ 33,696
LIABILITIES		
Current liabilities:		
Short-term borrowings	\$ 370	\$ 300
Commercial paper	1,672	912
Accounts payable, trade	2,691	2,659
Accrued compensation and retirement costs	946	1,102
Taxes, including taxes on income	867	874
Other current liabilities	1,325	1,460
Long-term debt due within one year	59	58
Total current liabilities	7,930	7,365
Long-term debt, less amount due within one year	5,226	5,279
Accrued pension benefits	1,533	1,500
Accrued postretirement benefits	2,090	2,105
Other noncurrent liabilities and deferred credits	1,919	1,823
Deferred income taxes	907	875
Liabilities of operations held for sale (H)	4	11

Edgar Filing: ALCOA INC - Form 10-Q

Total liabilities	19,609	18,958
MINORITY INTERESTS	1,391	1,365
COMMITMENTS AND CONTINGENCIES (K)		
SHAREHOLDERS EQUITY		
Preferred stock	55	55
Common stock	925	925
Additional capital	5,810	5,720
Retained earnings	9,818	9,345
Treasury stock, at cost	(1,933)	(1,899)
Accumulated other comprehensive loss (L)	(746)	(773)
Total shareholders equity	13,929	13,373
Total liabilities and equity	\$ 34,929	\$ 33,696

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

Alcoa and subsidiaries**Condensed Statement of Consolidated Income (unaudited)****(in millions, except per-share amounts)**

	First quarter ended	
	March 31	
	2006	2005
Sales (M)	\$ 7,244	\$ 6,221
Cost of goods sold	5,459	4,933
Selling, general administrative, and other expenses	369	325
Research and development expenses	48	46
Provision for depreciation, depletion, and amortization	308	312
Restructuring and other charges (D)	1	45
Interest expense	92	78
Other income, net (F)	(35)	(36)
Total costs and expenses	6,242	5,703
Income from continuing operations before taxes on income	1,002	518
Provision for taxes on income (G)	282	190
Income from continuing operations before minority interests share	720	328
Less: Minority interests share	105	60
Income from continuing operations	615	268
Loss from discontinued operations (H)	(7)	(8)
NET INCOME	\$ 608	\$ 260
EARNINGS (LOSS) PER SHARE (I)		
Basic:		
Income from continuing operations	\$.71	\$.31
Loss from discontinued operations	(.01)	(.01)
Net income	\$.70	\$.30
Diluted:		
Income from continuing operations	\$.70	\$.31
Loss from discontinued operations	(.01)	(.01)
Net income	\$.69	\$.30
Dividends paid per common share	\$.15	\$.15

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

Alcoa and subsidiaries**Condensed Statement of Consolidated Cash Flows (unaudited)****(in millions)**

	Three months ended	
	March 31	
	2006	2005
CASH FROM OPERATIONS		
Net income	\$ 608	\$ 260
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion, and amortization	309	315
Deferred income taxes	(4)	36
Equity income, net of dividends	(9)	(11)
Restructuring and other charges (D)	1	45
Provision for doubtful accounts	3	4
Loss from discontinued operations (H)	7	8
Minority interests	105	60
Stock-based compensation (B)	28	5
Other	1	(13)
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Increase in receivables	(412)	(499)
Increase in inventories	(323)	(371)
Increase in prepaid expenses and other current assets	(86)	(53)
(Decrease) increase in accounts payable and accrued expenses	(295)	101
(Decrease) increase in taxes, including taxes on income	(43)	50
Cash paid on long-term aluminum supply contract		(93)
Pension contributions	(77)	(18)
Net change in noncurrent assets and liabilities	(26)	(54)
CASH USED FOR CONTINUING OPERATIONS	(213)	(228)
CASH USED FOR DISCONTINUED OPERATIONS		(11)
CASH USED FOR OPERATIONS	(213)	(239)
FINANCING ACTIVITIES		
Net changes to short-term borrowings	69	63
Common stock issued for stock compensation plans	46	23
Repurchase of common stock	(60)	
Dividends paid to shareholders	(131)	(131)
Dividends paid to minority interests	(115)	(72)
Net change in commercial paper	760	1,002
Additions to long-term debt	6	45
Payments on long-term debt	(5)	(61)
CASH PROVIDED FROM FINANCING ACTIVITIES	570	869
INVESTING ACTIVITIES		
Capital expenditures	(592)	(347)
Acquisition of minority interests	(1)	(176)
Acquisitions, net of cash acquired		(257)
Sale of investments		206
Change in short-term investments and restricted cash	(59)	(7)
Additions to investments	(33)	(5)

Edgar Filing: ALCOA INC - Form 10-Q

Other	18	2
CASH USED FOR INVESTING ACTIVITIES	(667)	(584)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	7	(6)
Net change in cash and cash equivalents	(303)	40
Cash and cash equivalents at beginning of year	762	457
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 459	\$ 497

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

Notes to the Condensed Consolidated Financial Statements (unaudited)

(dollars in millions, except per-share amounts)

A. Basis of Presentation - The Condensed Consolidated Financial Statements are unaudited. These statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the results of operations, financial position, and cash flows. The results reported in these Condensed Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the entire year. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

This Form 10-Q report should be read in conjunction with Alcoa's Annual Report on Form 10-K for the year ended December 31, 2005, which includes all disclosures required by accounting principles generally accepted in the United States of America.

B. Stock-Based Compensation - On January 1, 2006, Alcoa adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, which requires the company to recognize compensation expense for stock-based compensation based on the grant date fair value. This expense must be recognized ratably over the requisite service period following the date of grant. Alcoa has elected the modified prospective application method for adoption, and prior periods financial statements have not been restated. Prior to January 1, 2006, Alcoa accounted for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations.

Stock options under Alcoa's stock-based compensation plans have been granted at not less than market prices on the dates of grant. Beginning in 2006, performance stock options were granted to certain individuals. The final number of options granted is based on the outcome of Alcoa's annual return on capital results against the results of a comparator group of companies. However, an individual can earn a minimum number of options if Alcoa's return on capital meets or exceeds its cost of capital. Stock option features based on date of original grant are as follows:

Date of original grant	Vesting	Term	Reload feature
2002 and prior	One year	10 years	One reload over option term
2003	3 years (1/3 each year)	10 years	One reload in 2004 for 1/3 vesting in 2004
2004 and forward	3 years (1/3 each year)	6 years	None

In addition to the stock options described above, Alcoa granted restricted stock units (stock awards) that vest in three years from the date of grant. Certain of these stock awards were granted with the same performance conditions described above for performance stock options.

The following table summarizes the total compensation expense recognized for all options and stock awards:

First quarter ended March 31	2006	2005
Compensation expense reported in income:		
Stock option grants	\$ 3	\$
Stock award grants	25	5
Total compensation expense before income taxes	28	5
Income tax benefit	8	2