

ALCOA INC
Form 10-Q
April 18, 2013

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, 2013

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)

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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 212-836-2732

(Registrant's telephone number including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 15, 2013, 1,069,397,025 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****Statement of Consolidated Operations (unaudited)**

(in millions, except per-share amounts)

| | First quarter ended March 31, | |
|--|--|--------------|
| | 2013 | 2012 |
| Sales (H) | \$ 5,833 | \$ 6,006 |
| Cost of goods sold (exclusive of expenses below) | 4,847 | 5,098 |
| Selling, general administrative, and other expenses | 251 | 241 |
| Research and development expenses | 45 | 43 |
| Provision for depreciation, depletion, and amortization | 361 | 369 |
| Restructuring and other charges (C) | 7 | 10 |
| Interest expense | 115 | 123 |
| Other income, net (G) | (27) | (16) |
| Total costs and expenses | 5,599 | 5,868 |
| Income before income taxes | 234 | 138 |
| Provision for income taxes (J) | 64 | 39 |
| Net income | 170 | 99 |
| Less: Net income attributable to noncontrolling interests | 21 | 5 |
| NET INCOME ATTRIBUTABLE TO ALCOA | \$ 149 | \$ 94 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ALCOA COMMON SHAREHOLDERS (I): | | |
| Basic | \$ 0.14 | \$ 0.09 |
| Diluted | \$ 0.13 | \$ 0.09 |
| Dividends paid per common share | \$ 0.03 | \$ 0.03 |

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

Alcoa and subsidiaries**Statement of Consolidated Comprehensive Income (unaudited)****(in millions)**

| | Alcoa | | Noncontrolling Interests | | Total | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | First quarter ended March 31, 2013 | First quarter ended March 31, 2012 | First quarter ended March 31, 2013 | First quarter ended March 31, 2012 | First quarter ended March 31, 2013 | First quarter ended March 31, 2012 |
| Net income | \$ 149 | \$ 94 | \$ 21 | \$ 5 | \$ 170 | \$ 99 |
| Other comprehensive income, net of tax (B): | | | | | | |
| Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits | 95 | 56 | 1 | 2 | 96 | 58 |
| Foreign currency translation adjustments | (116) | 244 | 16 | 65 | (100) | 309 |
| Net change in unrealized gains on available-for-sale securities | 1 | 2 | | | 1 | 2 |
| Net change in unrecognized losses on derivatives | 113 | (81) | 2 | (2) | 115 | (83) |
| Total Other comprehensive income, net of tax | 93 | 221 | 19 | 65 | 112 | 286 |
| Comprehensive income | \$ 242 | \$ 315 | \$ 40 | \$ 70 | \$ 282 | \$ 385 |

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

Alcoa and subsidiaries

Consolidated Balance Sheet (unaudited)

(in millions)

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,555 | \$ 1,861 |
| Receivables from customers, less allowances of \$35 in 2013 and \$39 in 2012 (K) | 1,680 | 1,399 |
| Other receivables (K) | 338 | 340 |
| Inventories (D) | 2,982 | 2,825 |
| Prepaid expenses and other current assets | 1,213 | 1,275 |
| Total current assets | 7,768 | 7,700 |
| Properties, plants, and equipment | 38,378 | 38,137 |
| Less: accumulated depreciation, depletion, and amortization | 19,422 | 19,190 |
| Properties, plants, and equipment, net | 18,956 | 18,947 |
| Goodwill | 5,123 | 5,170 |
| Investments | 1,862 | 1,860 |
| Deferred income taxes | 3,717 | 3,790 |
| Other noncurrent assets | 2,680 | 2,712 |
| Total assets | \$ 40,106 | \$ 40,179 |
| LIABILITIES | | |
| Current liabilities: | | |
| Short-term borrowings (E) | \$ 51 | \$ 53 |
| Commercial paper | 104 | |
| Accounts payable, trade | 2,860 | 2,702 |
| Accrued compensation and retirement costs | 932 | 1,058 |
| Taxes, including income taxes | 438 | 366 |
| Other current liabilities | 1,090 | 1,298 |
| Long-term debt due within one year | 1,025 | 465 |
| Total current liabilities | 6,500 | 5,942 |
| Long-term debt, less amount due within one year | 7,745 | 8,311 |
| Accrued pension benefits | 3,626 | 3,722 |
| Accrued other postretirement benefits | 2,578 | 2,603 |
| Other noncurrent liabilities and deferred credits | 2,883 | 3,078 |
| Total liabilities | 23,332 | 23,656 |
| CONTINGENCIES AND COMMITMENTS (F) | | |
| EQUITY | | |
| Alcoa shareholders' equity: | | |
| Preferred stock | 55 | 55 |

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| | | |
|--|---------------|---------------|
| Common stock | 1,178 | 1,178 |
| Additional capital | 7,508 | 7,560 |
| Retained earnings | 11,805 | 11,689 |
| Treasury stock, at cost | (3,816) | (3,881) |
| Accumulated other comprehensive loss (B) | (3,309) | (3,402) |
| Total Alcoa shareholders' equity | 13,421 | 13,199 |
| Noncontrolling interests | 3,353 | 3,324 |
| Total equity | 16,774 | 16,523 |
| Total liabilities and equity | \$ 40,106 | \$ 40,179 |

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

Alcoa and subsidiaries

Statement of Consolidated Cash Flows (unaudited)

(in millions)

| | Three months ended March 31, | |
|---|---------------------------------|--------------|
| | 2013 | 2012 |
| CASH FROM OPERATIONS | | |
| Net income | \$ 170 | \$ 99 |
| Adjustments to reconcile net income to cash from operations: | | |
| Depreciation, depletion, and amortization | 361 | 369 |
| Deferred income taxes | (13) | (100) |
| Equity loss (income), net of dividends | 13 | (8) |
| Restructuring and other charges (C) | 7 | 10 |
| Net (gain) loss from investing activities asset sales (G) | (5) | 2 |
| Stock-based compensation | 23 | 19 |
| Excess tax benefits from stock-based payment arrangements | | (1) |
| Other | | 19 |
| Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments: | | |
| (Increase) in receivables (K) | (321) | (139) |
| (Increase) in inventories | (182) | (153) |
| Decrease (increase) in prepaid expenses and other current assets | 25 | (25) |
| Increase in accounts payable, trade | 180 | 3 |
| (Decrease) in accrued expenses | (372) | (236) |
| Increase in taxes, including income taxes | 61 | 71 |
| Pension contributions | (83) | (213) |
| (Increase) in noncurrent assets | (26) | (39) |
| Decrease in noncurrent liabilities | 92 | 88 |
| (Increase) in net assets held for sale | | (2) |
| CASH USED FOR OPERATIONS | (70) | (236) |
| FINANCING ACTIVITIES | | |
| Net change in short-term borrowings (original maturities of three months or less) | | (10) |
| Net change in commercial paper | 104 | 51 |
| Additions to debt (original maturities greater than three months) (E) | 625 | 730 |
| Debt issuance costs | | (3) |
| Payments on debt (original maturities greater than three months) (E) | (639) | (414) |
| Proceeds from exercise of employee stock options | | 8 |
| Excess tax benefits from stock-based payment arrangements | | 1 |
| Dividends paid to shareholders | (33) | (33) |
| Distributions to noncontrolling interests | (25) | (26) |
| Contributions from noncontrolling interests | 15 | 90 |
| CASH PROVIDED FROM FINANCING ACTIVITIES | 47 | 394 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (235) | (270) |
| Proceeds from the sale of assets and businesses | 2 | 11 |
| Additions to investments | (121) | (104) |
| Sales of investments | | 11 |
| Net change in restricted cash | 59 | (9) |

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| | | |
|--|-----------------|-----------------|
| Other | 10 | 11 |
| CASH USED FOR INVESTING ACTIVITIES | (285) | (350) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 2 | 2 |
| Net change in cash and cash equivalents | (306) | (190) |
| Cash and cash equivalents at beginning of year | 1,861 | 1,939 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,555 | \$ 1,749 |

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

Alcoa and subsidiaries

Statement of Changes in Consolidated Equity (unaudited)

(in millions, except per-share amounts)

| | Alcoa Shareholders | | | | | Accumulated other comprehensive loss | Non- controlling interests | Total equity |
|---|--------------------|-----------------|-----------------------|----------------------|-------------------|---|----------------------------------|-----------------|
| | Preferred stock | Common stock | Additional capital | Retained earnings | Treasury stock | | | |
| Balance at December 31, 2011 | \$ 55 | \$ 1,178 | \$ 7,561 | \$ 11,629 | \$ (3,952) | \$ (2,627) | \$ 3,351 | \$ 17,195 |
| Net income | | | | 94 | | | 5 | 99 |
| Other comprehensive income | | | | | | 221 | 65 | 286 |
| Cash dividends declared: | | | | | | | | |
| Preferred @ \$0.9375 per share | | | | (1) | | | | (1) |
| Common @ \$0.03 per share | | | | (32) | | | | (32) |
| Stock-based compensation | | | 19 | | | | | 19 |
| Common stock issued: compensation plans | | | (57) | | 54 | | | (3) |
| Distributions | | | | | | | (26) | (26) |
| Contributions | | | | | | | 90 | 90 |
| Other | | | | | | | (1) | (1) |
| Balance at March 31, 2012 | \$ 55 | \$ 1,178 | \$ 7,523 | \$ 11,690 | \$ (3,898) | \$ (2,406) | \$ 3,484 | \$ 17,626 |
| Balance at December 31, 2012 | \$ 55 | \$ 1,178 | \$ 7,560 | \$ 11,689 | \$ (3,881) | \$ (3,402) | \$ 3,324 | \$ 16,523 |
| Net income | | | | 149 | | | 21 | 170 |
| Other comprehensive income | | | | | | 93 | 19 | 112 |
| Cash dividends declared: | | | | | | | | |
| Preferred @ \$0.9375 per share | | | | (1) | | | | (1) |
| Common @ \$0.03 per share | | | | (32) | | | | (32) |
| Stock-based compensation | | | 23 | | | | | 23 |
| Common stock issued: compensation plans | | | (75) | | 65 | | | (10) |
| Distributions | | | | | | | (25) | (25) |
| Contributions | | | | | | | 15 | 15 |
| Other | | | | | | | (1) | (1) |
| Balance at March 31, 2013 | \$ 55 | \$ 1,178 | \$ 7,508 | \$ 11,805 | \$ (3,816) | \$ (3,309) | \$ 3,353 | \$ 16,774 |

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

Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited)

(dollars in millions, except per-share amounts)

A. Basis of Presentation The interim Consolidated Financial Statements of Alcoa Inc. and its subsidiaries (Alcoa or the Company) are unaudited. These Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position, and cash flows. The results reported in these Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the entire year. The 2012 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 (GAAP). 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, 2012, which includes all disclosures required by GAAP. Certain amounts in previously issued financial statements were reclassified to confirm to the current period presentation.

B. Recently Adopted and Recently Issued Accounting Guidance

Adopted

On January 1, 2013, Alcoa adopted changes issued by the Financial Accounting Standards Board (FASB) to the testing of indefinite-lived intangible assets for impairment, similar to the goodwill changes adopted in October 2011. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of an indefinite-lived intangible asset is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. Notwithstanding the adoption of these changes, management plans to proceed directly to the two-step quantitative test for Alcoa's indefinite-lived intangible assets. The adoption of these changes had no impact on the Consolidated Financial Statements.

On January 1, 2013, Alcoa adopted changes issued by the FASB to the disclosure of offsetting assets and liabilities. These changes require an entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The enhanced disclosures will enable users of an entity's financial statements to understand and evaluate the effect or potential effect of master netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Other than the additional disclosure requirements (see Note M), the adoption of these changes had no impact on the Consolidated Financial Statements.

On January 1, 2013, Alcoa adopted changes issued by the FASB to the reporting of amounts reclassified out of accumulated other comprehensive income. These changes require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. These requirements are to be applied to each component of accumulated other comprehensive income. Other than the additional disclosure requirements (see below), the adoption of these changes had no impact on the Consolidated Financial Statements.

The changes in Accumulated other comprehensive loss by component were as follows:

| | Alcoa | | Noncontrolling Interests | |
|---|--|--|--|--|
| | First quarter ended March 31, 2013 | First quarter ended March 31, 2012 | First quarter ended March 31, 2013 | First quarter ended March 31, 2012 |
| Pension and other postretirement benefits | | | | |
| Balance at beginning of period | \$ (4,063) | \$ (3,533) | \$ (77) | \$ (99) |
| Other comprehensive income: | | | | |
| Unrecognized net actuarial loss and prior service cost/benefit | 11 | (13) | | |
| Tax (expense) benefit | (3) | 3 | | |
| Total Other comprehensive income before reclassifications, net of tax | 8 | (10) | | |
| Amortization of net actuarial loss and prior service cost/benefit ⁽¹⁾ | 132 | 101 | 1 | 2 |
| Tax (expense) benefit ⁽²⁾ | (45) | (35) | | |
| Total amount reclassified from Accumulated other comprehensive loss, net of tax ⁽⁶⁾ | 87 | 66 | 1 | 2 |
| Total Other comprehensive income | 95 | 56 | 1 | |