ALCOA INC
Form DEFA14A
April 27, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant ¨ Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Alcoa Inc.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid

(2) Form, Schedule or Registration Statement No.:

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Commencing April 26, 2011, Alcoa Inc. sent the following communication to certain shareholders.

We urge you to vote FOR the advisory vote on executive compensation. In addition to the information provided in the company s Proxy Statement, we ask you to consider the following:

1. The Compensation and Benefits Committee of the Board of Directors engaged in a comprehensive review of compensation policies and practices in 2010 and made significant changes. See slides 1 and 2 in the attachment. In its recent report, ISS recognized these improvements and rated our compensation governance risk of low concern.

2. Our current performance equity plan has a one-year performance period and uses the same metrics as our annual cash incentive compensation plan. We designed the plans in this way to focus management on critical goals to recover from the deepest recession in the aluminum industry in a half century. See slide 3. It is through the actions implemented by the management team and supported by our incentive plans that the company returned to profitability and positive free cash flow in 2010. See slides 4 and 5.

3. We state in the Proxy Statement that we intend to move to a longer performance period for our equity plan when the markets stabilize. We are considering steps to implement changes in our performance equity plan to create a three-year performance period with metrics designed to drive profitability and revenue growth. In choosing metrics, we will consider the market dynamics of the aluminum industry, a goal to drive continuous performance improvement and those factors that are clearly within management s control to increase shareholder value. See slides 6, 7, 8 and 9.

<u>We urge you to provide a favorable advisory vote on executive compensation.</u>

Recent major changes to improve compensation governance risk
1
In 2011 annual equity grants to senior officers are 80% performance based restricted share units and 20% time vested stock options
Increased stock ownership requirements (6 X base salary for CEO)
Adopted a §162(m) compliant incentive compensation plan, subject to shareholder approval

Amended the 2009 Stock Incentive Plan to convert from a single to a double trigger standard on change in control

Eliminated the modified single trigger severance feature under the change in control severance plan for any new participants

Recent other changes to improve compensation governance risk
2
Eliminated remaining tax gross ups:
spouse travel (except under the relocation policies)
term life insurance provided by the Company to executives accepting a U.S. assignment
golden parachute excise tax gross-up for any new participants
continuation of health benefits in executive severance agreement

Accrued dividend equivalents on future RSU grants to be paid at vesting
Amended terms and conditions for stock options granted after January 1, 2011 to decrease the post-retirement exercise period to the lesser of 5 years from retirement or the remaining option term
Beginning in 2011, the Chairman and Chief Executive Officer will reimburse the Company for the cost of personal use of a company car and driver in excess of $70,000 per year

Source: IAI, Bloomberg
3
Unprecedented Drop in LME Price at End of 2008

Strong Year over Year Growth in Key Metrics
Income from Continuing Operations ($M)
Free Cash Flow ($M)
$559
($685)
2009
$1,246

($685)
2009
($257)
4

Results Have Strengthened Liquidity and Financial Positions
5

GDP and PPI Change Were Not as Abrupt as Aluminum
6
Source: LME, Bloomberg

Metals Experienced Differing Declines and Recoveries
7
Source: LME, Bloomberg

Total Shareholder Return: Alcoa vs. Select Aluminum Peers
Peers:
-5.9%
Alcoa:
-3.6%
Peers include public aluminum companies with market capitalization > $3b: Rusal, Chalco, Norsk Hydro, Alumina Ltd., Nalco
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Marked Improvement in Shareholder Return in 2011
Peers:
+9.4%
Alcoa:
+15.7%
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Reconciliation of Free Cash Flow
(in millions)
Quarter ended
Year ended
December 31,
2008
March 31,

2009
June 30,
2009
September 30,
2009
December 31,
2009
March 31,
2010
June 30,
2010
September 30,
2010
December 31,
2010
December 31,
2009
December 31,
2010
Cash
provided
from
operations
$ 608
$ (271)
$ 328
$ 184
$ 1,124
$ 199
$ 300
$ 392
$ 1,370
$ 1,365
$ 2,261
Capital
expenditures
(1,017)
(471)
(418)
(370)
(363)
(221)
(213)
(216)
(365)
(1,622)
(1,015)
Free cash
flow
$ (409)

$ (742)
$ (90)
$ (186)
$ 761
$ (22)
$ 87
$ 176
$ 1,005
$ (257)
$ 1,246

Free Cash Flow is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because
fact that these expenditures are considered necessary to maintain and expand Alcoa s asset base and are expected to generate f
available for discretionary expenditures since other non-discretionary expenditures, such as mandatory debt service requiremen
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Reconciliation of Adjusted Income
(in millions)
Quarter ended
Year ended
December 31,
2009

	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	December 31, 2009	December 31, 2010
Net (loss) income attributable to Alcoa	$ (277)	$ (201)	$ 136	$ 61	$ 258	$ (1,151)	$ 254
Loss from discontinued operations	(11)	(7)	(1)			(166)	(8)
(Loss) income from continuing operations attributable to Alcoa	(266)	(194)	137	61	258	(985)	262
Restructuring and other charges	49	119	20	(1)	(8)	152	130

Discrete tax items*
(82)
112
(16)
(38)
(18)
(110)
40
Special items**
308
64
(2)
74
(9)
258
127
Income (loss) from continuing operations attributable to Alcoa

as adjusted
$ 9
$ 101
$ 139
$ 96
$ 223
$ (685)
$ 559

Income (loss) from continuing operations attributable to Alcoa as adjusted is a non-GAAP financial measure. Management l
operating results of Alcoa excluding the impacts of restructuring and other charges, discrete tax items, and special items. Ther
items, and special items will not occur in future periods. To compensate for this limitation, management believes that it is app
determined under GAAP as well as Income (loss) from continuing operations attributable to Alcoa as adjusted.

* Discrete tax items include the following:

for the quarter ended December 31, 2010, a benefit for the reversal of the remaining valuation allowance related to net operatin
2010) and a net benefit for other small items ($2);

for the quarter ended September 30, 2010, a benefit for the reversal of a valuation allowance related to net operating losses of a
rate change in Brazil ($11), and a benefit for the recovery of a portion of the unfavorable impact included in the quarter ended

for the quarter ended June 30, 2010, a benefit for a change in a Canadian provincial tax law permitting tax returns to be filed in
($18), and a benefit for the recovery of a portion of the unfavorable impact included in the quarter ended March 31, 2010 relate

for the quarter ended March 31, 2010, charges for a change in the tax treatment of federal subsidies received related to prescrip
and Italy ($22), interest due to the IRS related to a previously deferred gain associated with the 2007 formation of the former s
Europe business ($5);

for the quarter ended December 31, 2009, a benefit for the reorganization of an equity investment in Canada ($71), a charge fo
($31), and a benefit for the reversal of a valuation allowance on net operating losses in Norway ($21); and,

for the year ended December 31, 2009, the previously mentioned items for the quarter ended December 31, 2009 ($82) and a b

** Special items include the following:

for the quarter ended December 31, 2010, favorable mark-to-market changes in derivative contracts;

for the quarter ended September 30, 2010, unfavorable mark-to-market changes in derivative contracts ($29), recovery costs as

2010 ($23), restart costs and lost volumes related to a June 2010 flood at the Avilés smelter in Spain ($13), and a net charge fo
and call option (partially offset by gains from the termination of related in-the-money interest rate swaps) ($9);

for the quarter ended June 30, 2010, favorable mark-to-market changes in derivative contracts ($22), a charge for costs associa
to an unfavorable decision in Alcoa s lawsuit against Luminant related to the Rockdale, TX facility ($7);

for the quarter ended March 31, 2010, charges related to unfavorable mark-to-market changes in derivative contracts ($31), po
Grasse River remediation in Massena, NY ($11), and the write off of inventory related to the permanent closures of certain U.S

for the quarter ended December 31, 2009, charges related to the European Commission s ruling on electricity pricing for smel
at the Intalco smelter ($19), and an environmental accrual for smelters in Italy ($15); and,

for the year ended December 31, 2009, the previously mentioned items for the quarter ended December 31, 2009 ($308), a gair
in Suriname ($35).

Reconciliation of Adjusted Income, con t
(in millions)
Quarter ended
December 31,
2008
March 31,
2009

June 30,
2009
September 30,
2009
Net (loss) income
attributable to Alcoa
$ (1,191)
$ (497)
$ (454)
$ 77
(Loss) income from
discontinued
operations
(262)
(17)
(142)
4
(Loss) income from
continuing
operations
attributable to Alcoa
(929)
(480)
(312)
73
Restructuring and
other charges
614
46
56
1
Discrete tax items*
65
(28)

Special items**
29
(15)

(35)
(Loss) income from
continuing
operations
attributable to Alcoa

as adjusted
$ (221)
$ (477)
$ (256)

$ 39

Income (loss) from continuing operations attributable to Alcoa as adjusted is a non-GAAP financial measure. Management l
because management reviews the operating results of Alcoa excluding the impacts of restructuring and other charges, discrete t
assurances that additional restructuring and other charges, discrete tax items, and special items will not occur in future periods.
believes that it is appropriate to consider both Income (loss) from continuing operations attributable to Alcoa determined under
operations attributable to Alcoa as adjusted.

* Discrete tax items include the following:

for the quarter ended March 31, 2009, a benefit for a change in a Canadian national tax law permitting tax returns to be filed in
for the quarter ended December 31, 2008, a charge for non-cash tax on repatriated earnings.

** Special items include the following:

for the quarter ended September 30, 2009, a gain on an acquisition in Suriname;
for the quarter ended March 31, 2009, a gain on the Elkem/SAPA swap ($133) and a loss on the sale of Shining Prospect ($118
for the quarter ended December 31, 2008, charges for environmental reserve ($26), obsolete inventory ($16), and accounts rece

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