CAPITAL GOLD CORP
Form 10-Q
December 10, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2008

OR

o TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 0-13078

CAPITAL GOLD CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	13-3180530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

76 Beaver Street, 14th floor, New York, NY 10005
(Address of principal executive offices)

Registrant's telephone number, including area code: (212) 344-2785

(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	o

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

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

Class	Outstanding at December 1, 2008
Common Stock, par value $.0001 per share	193,124,826

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for the fair presentation of results for the three months ended October 31, 2008.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with U.S. generally accepted accounting principles and should be read in conjunction with our audited financial statements at, and for the fiscal year ended July 31, 2008.

The results reflected for the three months ended October 31, 2008 are not necessarily indicative of the results for the entire fiscal year.

CAPITAL GOLD CORPORATION
CONSOLIDATED BALANCE SHEET
(in thousands, except for share and per share amounts)

ASSETS

Current Assets:	October 31, 2008	July 31, 2008
Cash and Cash Equivalents	$ 9,208	$ 10,992
Accounts Receivable	1,045	1,477
Stockpiles and Ore on Leach Pads (Note 4)	12,131	12,176
Material and Supply Inventories	1,045	937
Deposits	8	9
Marketable Securities (Note 3)	15	65
Prepaid Expenses	163	219
Loans Receivable – Affiliate (Note 9 and13)	40	39
Other Current Assets (Note 5)	789	490
Total Current Assets	24,444	26,404
Mining Concessions (Note 8)	56	59
Property & Equipment – net (Note 6)	22,097	20,918
Intangible Assets – net (Note 7)	174	181
Other Assets:		
Deferred Financing Costs (Note 15)	562	599
Mining Reclamation Bonds	82	82
Deferred Tax Asset (Note 17)	446	573
Security Deposits	54	63
Total Other Assets	1,144	1,317
Total Assets	$ 47,915	$ 48,879
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 740	$ 788
Accrued Expenses (Note 10)	3,553	2,673
Derivative Contracts (Note 16)	933	930
Deferred Tax Liability (Note 17)	1,607	2,063
Current Portion of Long-term Debt (Note 15)	4,275	4,125
Total Current Liabilities	11,108	10,579
Reclamation and Remediation Liabilities (Note 11)	1,331	1,666
Other liabilities	48	62
Long-term Debt (Note 15)	7,100	8,375
Total Long-term Liabilities	8,479	10,103
Commitments and Contingencies	-	-
Stockholders' Equity:		
Common Stock, Par Value $.0001 Per Share;		
Authorized 300,000,000 shares; Issued and		
Outstanding 192,974,826 and 192,777,326 shares, respectively	19	19
Additional Paid-In Capital	63,244	63,074
Accumulated Deficit	(30,560)	(32,496)
Deferred Financing Costs (Note 15)	(2,410)	(2,611)

Deferred Compensation		(491)		(549)
Accumulated Other Comprehensive Income (Note 12)		(1,474)		760
Total Stockholders' Equity		28,328		28,197
Total Liabilities and Stockholders' Equity	$	47,915	$	48,879

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

CAPITAL GOLD CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

(in thousands, except for share and per share amounts)

	For The Three Months Ended October 31, 2008	2007
Revenues		
Sales – Gold, net	$ 9,175	$ 6,526
Costs and Expenses:		
Costs Applicable to Sales	3,042	2,205
Depreciation and Amortization	703	949
General and Administrative	1,364	794
Exploration	490	135
Equity Based Compensation	14	58
Total Costs and Expenses	5,613	4,141
Income (Loss) from Operations	3,562	2,385
Other Income (Expense):		
Interest Income	13	20
Interest Expense	(200)	(281)
Other Income (Expense)	(208)	(19)
Loss on change in fair value of derivative	(304)	(358)
Total Other Income (Expense)	(699)	(638)
Income (Loss) before Income Taxes	2,863	1,747
Income Tax Expense	(927)	-
Net Income (Loss)	$ 1,936	$ 1,747
Income (Loss) Per Common Share		
Basic	$ 0.01	$ 0.01
Diluted	$ 0.01	$ 0.01
Basic Weighted Average Common Shares Outstanding	192,843,875	170,854,825
Diluted Weighted Average Common Shares Outstanding	198,342,324	192,997,981

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

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(in thousands, except for share and per share amounts)

	Common Stock Shares	Common Stock Amount	Additional paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Financing Costs	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2008	192,777,326	$ 19	$ 63,074	$ (32,496)	$ 760	$ (2,611)	$ (549)	$ 28,197
Amortization of deferred finance costs	-	-	-	-	-	201	-	201
Equity based compensation	-	-	67	-	-	-	58	125
Issuance of restricted common stock	197,500	-	103				-	103
Change in fair value on interest rate swaps	-	-	-	-	8	-	-	8
Unrealized loss on marketable securities	-	-	-	-	(50)	-	-	(50)
Equity adjustment from foreign currency translation	-	-	-	-	(2,192)	-	-	(2,192)
Net income for the three months ended October 31, 2008	-	-	-	1,936	-		-	1,936
Balance at October 31, 2008	192,974,826	$ 19	$ 63,244	$ (30,560)	$ (1,474)	$ (2,410)	$ (491)	$ 28,328

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

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(in thousands, except for share and per share amounts)

	For The Three Months Ended October 31, 2008	2007
Cash Flow From Operating Activities:		
Net Income (Loss)	$ 1,936	$ 1,747
Adjustments to Reconcile Net Loss to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	703	949
Accretion of Reclamation and Remediation	38	61
Loss on change in fair value of derivative, net	304	66
Equity Based Compensation	227	58
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	432	(1,019)
Decrease in Prepaid Expenses	55	6
Decrease (Increase) in Inventory	330	(1,910)
Increase in Other Current Assets	(299)	(470)
Decrease in Other Deposits	1	307
Decrease in Security Deposits	9	-
Decrease in Deferred Tax Asset	127	-
(Decrease) Increase in Accounts Payable	(48)	297
Decrease in Derivative Liability	(293)	-
Decrease in Other Liability	(14)	-
Decrease in Reclamation and Remediation	(373)	-
Decrease in Deferred Tax Liability	(455)	-
Increase in Accrued Expenses	881	323
Net Cash Provided By Operating Activities	3,561	415
Cash Flow From Investing Activities:		
Purchase of Mining, Milling and Other Property and Equipment	(2,027)	(799)
Purchase of Intangibles	-	(90)
Net Cash Used in Investing Activities	(2,027)	(889)

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

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED
(UNAUDITED)
(in thousands, except for share and per share amounts)

	For The Three Months Ended October 31, 2008	2007
Cash Flow From Financing Activities:		
Advances to Affiliate	(1)	9
Repayments on Notes Payable	(1,125)	-
Proceeds From Issuance of Common Stock	-	2,076
Net Cash Provided By Financing Activities	(1,126)	2,085
Effect of Exchange Rate Changes	(2,192)	80
Increase (Decrease) In Cash and Cash Equivalents	(1,784)	1,691
Cash and Cash Equivalents - Beginning	10,992	2,225
Cash and Cash Equivalents – Ending	$ 9,208	$ 3,916
Supplemental Cash Flow Information:		
Cash Paid For Interest	$ 213	$ 879
Cash Paid For Income Taxes	$ 672	$ -
Non-Cash Financing Activities:		
Change in Fair Value of Derivative Instrument	$ (8)	$ 66

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

CAPITAL GOLD CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(in thousands, except for per share and ounce amounts)

NOTE 1 - Basis of Presentation

Capital Gold Corporation ("Capital Gold", "the Company", "we" or "us") owns rights to property located in the State of Sonora, Mexico. The Company is engaged in the production of gold and other minerals from its properties in Mexico as well as exploration for additional mineral properties. All of the Company's mining activities are being performed in Mexico.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the condensed consolidated financial position and results of operations and cash flows for the periods presented. They include the accounts of Capital Gold Corporation and its wholly owned and majority owned subsidiaries, Leadville Mining and Milling Holding Corporation, Minera Santa Rita, S.A de R.L. de C.V.(“MSR”) and Oro de Altar S. de R. L. de C.V. (“Oro”) as well as the accounts within Caborca Industrial S.A. de C.V. (“Caborca Industriale”), a Mexican corporation 100% owned by two of the Company’s officers and directors for mining support services. These services include, but are not limited to, the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. This entity is considered a variable interest entity under accounting rules provided under FIN 46, “Consolidation of Variable Interest Entities”.

All significant intercompany accounts and transactions are eliminated in consolidation. Certain items in these financial statements have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company’s results of operations, stockholders’ equity or cash flows

Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

NOTE 2 - Equity Based Compensation

In connection with offers of employment to the Company’s executives as well as in consideration for agreements with certain consultants, the Company issues options and warrants to acquire its common stock. Employee and non-employee awards are made at the discretion of the Board of Directors.

Such options and warrants may be exercisable at varying exercise prices currently ranging from $0.33 to $0.85 per share of common stock with certain of these grants becoming exercisable immediately upon grant. Certain grants vested or are vesting for a period of five years.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 123R “Accounting for Stock Based Compensation” (“SFAS 123R”). Under SFAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period. The Company adopted the provisions of SFAS 123R using a modified prospective application. Under this method, compensation cost is recognized for all share-based payments granted, modified or settled after the date of adoption, as well as for any unvested awards that were granted prior to the date of adoption. Prior periods are not revised for comparative purposes. Because the Company previously adopted only the pro forma disclosure provisions of SFAS 123, it will recognize compensation cost relating to the unvested portion of awards granted prior to the date of adoption, using the same estimate of the grant-date fair value and the same attribution method used to determine the pro forma disclosures under SFAS 123, except that forfeitures rates will be estimated for all options, as required by SFAS 123R.

The cumulative effect of applying the forfeiture rates is not material. SFAS 123R requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the three months ended October 31, 2008 and 2007, were $0 and $0.43, respectively. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	Three months ended October 31,	
	2008	2007
Expected volatility	-	47.60 – 49.85%
Risk-free interest rate	-	4.31%
Expected dividend yield	-	-
Expected life	-	2.0 years

Stock option and warrant activity for employees during the year ended July 31, 2008, and three months ended October 31, 2008 is as follows (all tables in thousands, except for option, price and term data):

	Number of Options	Weighted Average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2007	2,500,000	$ .34	1.20	$ 255
Options granted	2,500,000	.63		
Options exercised	(1,450,000)	.32	-	-
Options expired	-	-	-	-
Warrants and options outstanding at July 31, 2008	3,550,000	$ .55	4.00	$ 334
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options expired	-	-	-	-
Warrants and options outstanding at October 31, 2008	3,550,000	$ .55	3.75	$ -
Warrants and options exercisable at October 31, 2008	1,925,000	$ .48	2.58	$ -

Unvested stock option and warrant balances for employees at October 31, 2008 are as follows:

	Number of Options		Weighted Average Exercise price	Weighted average remaining contracted term (years)		Aggregate Intrinsic value
Outstanding at August 1, 2007	150,000	$	.32	0.67	$	18
Options granted	2,500,000	$	.63	-		-
Options vested	(900,000)	$	.58	-		-
Unvested Options outstanding at July 31, 2008	1,750,000	$	.63	4.49	$	8
Options granted	-		-	-		-
Options vested	(125,000)		.63	-		-
Unvested Options outstanding at October 31, 2008	1,625,000	$	.63	4.24	$	-

Stock option and warrant activity for non-employees during the year ended July 31, 2008, and three months ended October 31, 2008 is as follows:

	Number of Options		Weighted Average Exercise price	Weighted average remaining contracted term (years)		Aggregate Intrinsic value
Warrants and options outstanding at July 31, 2007	22,535,542	$	.33	1.48	$	2,578
Options granted	1,715,000		.66	-		-
Options exercised	(21,555,542)		.33	-		-
Options expired	(680,000)		.30	-		-
Warrants and options outstanding at July 31, 2008	2,015,000	$	.62	3.54	$	54
Options granted	-		-	-		-
Options exercised	-		-	-		-
Options expired	-		-	-		-
Warrants and options outstanding at October 31, 2008	2,015,000	$	.62	3.02	$	-
Warrants and options exercisable at October 31, 2008	1,592,500	$	.61	2.25	$	-

Unvested stock options and warrant balances for non-employees at October 31, 2008 are as follows:

	Number of Options	Weighted Average Exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at August 1, 2007	-	-	-	-
Options granted	650,000	$ .63	-	-
Options vested	(195,000)	$ .63	-	-
Unvested Options outstanding at July 31, 2008	455,000	$ .63	4.49	$ 3
Options granted	-	-	-	-
Options vested	(32,500)	$ .63	-	-
Unvested Options outstanding at October 31, 2008	422,500	$ .63	4.24	$ -

The impact on the Company's results of operations of recording equity based compensation for the three months ended October 31, 2008 and 2007, for employees and non-employees was approximately $227 and $58 and reduced earnings per share by $0.00 and $0.00 per basic and diluted share, respectively.

As of October 31, 2008, there was approximately $619 of unrecognized equity based compensation cost related to options granted to executives and employees which have not yet vested.

NOTE 3 - Marketable Securities

Marketable securities are classified as current assets and are summarized as follows:

IGN="bottom"> Other current liabilities $47 $42

Energy contracts

Other current liabilities 56 37

Aluminum contracts

Other noncurrent liabilities and deferred credits 41 36

Energy contracts

Other noncurrent liabilities and deferred credits 31 24

Foreign exchange contracts

Other noncurrent liabilities and deferred credits 1

Embedded credit derivative

Other noncurrent liabilities and deferred credits 28 22

Total derivatives not designated as hedging instruments

$203 $162

Less margin posted:

Aluminum contracts

Other current liabilities $5 $4

Energy contracts

Other current liabilities 29 18

Aluminum contracts

Other noncurrent liabilities and deferred credits 2 3

Energy contracts

Other noncurrent liabilities and deferred credits 21 12

Sub-total

$57 $37

Total Liability Derivatives	$1,010	$930

* See the Other section within Note P for additional information on Alcoa s purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

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Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited) (Continued)

(dollars in millions, except per-share amounts)

Fair value is defined as the 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 fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

The following section describes the valuation methodologies used by Alcoa to measure derivative contracts at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models, and any significant assumptions.

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. Such financial instruments consist of aluminum, energy, interest rate, and foreign exchange contracts. The fair values for the majority of these derivative contracts are based upon current quoted market prices. These financial instruments are typically exchange-traded and are generally classified within Level 1 or Level 2 of the fair value hierarchy depending on whether the exchange is deemed to be an active market or not.

For certain derivative contracts whose fair values are based upon trades in liquid markets, such as interest rate swaps, valuation model inputs can generally be verified and valuation techniques do not involve significant management judgment. The fair values of such financial instruments are generally classified within Level 2 of the fair value hierarchy.

Alcoa has other derivative contracts that do not have observable market quotes. For these financial instruments, management uses significant other observable inputs (e.g., information concerning time premiums and volatilities for certain option type embedded derivatives and regional premiums for aluminum contracts). For periods beyond the term of quoted market prices for aluminum, Alcoa uses a model that estimates the long-term price of aluminum based on anticipated changes in worldwide supply and demand. For periods beyond the term of quoted market prices for energy, management has developed a forward curve based on independent consultant market research. Where appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence (Level 2). In the absence of such evidence, management s best estimate is used (Level 3).

Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited) (Continued)

(dollars in millions, except per-share amounts)

The following table presents Alcoa s derivative contract assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy:

	March 31, 2010	December 31, 2009
Assets:		
Level 1	$ 88	$ 110
Level 2	111	107
Level 3	1	
Margin held*	(40)	(60)
Total	$ 160	$ 157
Liabilities:		
Level 1	$ 89	$ 61
Level 2	85	75
Level 3	893	831
Margin posted*	(57)	(37)
Total	$ 1,010	$ 930

* Margin held represents cash collateral received related to aluminum contracts included in Level 1 and interest rate contracts included in Level 2 and margin posted represents cash collateral paid related to aluminum contracts included in Level 1 and energy contracts included in Level 3. At December 31, 2009, margin held also represents cash collateral received related to energy contracts included in Level 1. Alcoa elected to net the margin held and posted against the fair value amounts recognized for derivative instruments executed with the same counterparties under master netting arrangements.

Financial instruments classified as Level 3 in the fair value hierarchy represent derivative contracts in which management has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of activity for such derivative contracts on a net basis:

	First quarter ended March 31, 2010
Balance at beginning of period	$ 831
Total gains or losses (realized and unrealized) included in:	
Sales	(8)
Cost of goods sold	(11)
Other expenses, net	45
Other comprehensive loss	35
Purchases, sales, issuances, and settlements	
Transfers in and (or) out of Level 3*	
Balance at end of period	$ 892

Total (losses) or gains included in earnings attributable to the change in unrealized gains or losses relating to derivative contracts still held at March 31, 2010:		
Sales	$	
Cost of goods sold		
Other expenses, net		25

* There were no transfers in or out of Level 3 for the first quarter ended March 31, 2010.

As reflected in the table above, the net unrealized loss on derivative contracts using Level 3 valuation techniques was $892 as of March 31, 2010. This loss is mainly attributed to embedded derivatives in power contracts that index the price of power to the London Metal Exchange (LME) price of aluminum. These embedded derivatives are primarily valued using observable market prices. However, due to the length of the contracts, the valuation model also requires management to estimate the long-term price of aluminum based upon anticipated changes in worldwide supply and demand. The embedded derivatives have been designated as hedges of forward sales of aluminum and their realized gains and losses were included in Sales on the accompanying Statement of Consolidated Operations.

Also, included within Level 3 measurements are derivative financial instruments that hedge the cost of electricity. Transactions involving on-peak power are observable as there is an active market. However, there are certain off-peak times when there is not an actively traded market for electricity. Therefore, management utilizes market prices, historical relationships, and various forecast services to determine the fair value.

Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited) (Continued)

(dollars in millions, except per-share amounts)

Management utilizes these same valuation techniques for an existing power contract associated with a smelter in the U.S. that no longer qualified for the normal purchase normal sale exception under derivative accounting in late 2009. Unrealized gains and losses for this physical power contract were included in Other expenses, net on the accompanying Statement of Consolidated Operations, while realized gains and losses were included in Cost of goods sold on the accompanying Statement of Consolidated Operations. Additionally, a financial contract related to the same U.S. smelter utilized by management to hedge the price of electricity of the aforementioned power contract no longer qualified for cash flow hedge accounting near the end of 2009. Realized gains and losses of this financial contract were included in Cost of goods sold on the accompanying Statement of Consolidated Operations. In periods prior to January 1, 2010, unrealized gains and losses were included in Other comprehensive income; in periods subsequent to December 31, 2009, such changes were included in Other expenses, net on the accompanying Statement of Consolidated Operations.

In the 2010 first quarter, Alcoa entered into a contract to hedge the anticipated power requirements at two smelters in Australia. These derivatives hedge forecasted power purchases through December 2036. Beyond the term where market information is available, management has developed a forward curve, for valuation purposes, based on independent consultant market research. The effective portion of gains and losses on these contracts will be recorded in Other comprehensive income until the designated hedge periods begin in 2014 and 2016. Once the hedge periods begin, realized gains and losses will be recorded in Cost of goods sold.

Additionally, an embedded derivative in a power contract that indexes the difference between the long-term debt ratings of Alcoa and the counterparty from any of the three major credit rating agencies is included in Level 3. Management uses market prices, historical relationships, and forecast services to determine fair value. Realized gains and losses for this embedded derivative were included in Other expenses, net on the accompanying Statement of Consolidated Operations.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Alcoa includes the gain or loss on the hedged items in the same line items as the offsetting loss or gain on the related derivative contracts as follows (there were no contracts that ceased to qualify as a fair value hedge in the 2010 and 2009 first quarters):

		Amount of Gain or (Loss) Recognized in Income on Derivatives	
	Location of Gain or (Loss)	First quarter ended March 31,	
Derivatives in Fair Value Hedging Relationships	**Recognized in Income on Derivatives**	**2010**	**2009**
Aluminum contracts	Sales	$ 19	$ (141)
Interest rate contracts	Interest expense	18	11
Total		$ 37	$ (130)

Aluminum. Alcoa is a leading global producer of primary aluminum and fabricated aluminum products. As a condition of sale, customers often require Alcoa to enter into long-term, fixed-price commitments. These commitments expose Alcoa to the risk of fluctuating aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa s aluminum commodity risk management policy is to manage, principally through the use of futures contracts, the aluminum price risk associated with a portion of its firm commitments. These contracts cover known exposures, generally within three years. As of March 31, 2010, Alcoa had 375 kmt of aluminum futures designated as fair value hedges. The effects of this hedging activity will be recognized over the designated hedge periods in 2010 to 2012.

In the 2010 first quarter, Alcoa entered into a contract to hedge the anticipated power requirements at two smelters in Australia. These derivatives hedge forecasted power purchases through December 2036.

Interest Rates. Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. As of March 31, 2010, the Company had pay floating, receive fixed interest rate swaps that were designated as fair value hedges. These hedges effectively convert the interest rate from fixed to floating on $1,890 of debt through 2018.

Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited) (Continued)

(dollars in millions, except per-share amounts)

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) First quarter ended March 31, 2010	2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)* First quarter ended March 31, 2010	2009	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)** First quarter ended March 31, 2010	2009
Aluminum contracts	$ (57)	$ 114	Sales	$ (11)	$ 14	Other expenses, net	$ 2	$ 2
Aluminum contracts		12	Other expenses, net		47	Other expenses, net		
Energy contracts	(10)	(26)	Cost of goods sold	(4)	(7)	Other expenses, net		
Energy contracts	(1)		Other expenses, net			Other expenses, net		
Foreign exchange contracts	(6)		Sales	(3)		Other expenses, net		
Total	$ (74)	$ 100		$ (18)	$ 54		$ 2	$ 2

* Assuming market rates remain constant with the rates at March 31, 2010, a loss of $132 is expected to be recognized in earnings over the next 12 months.

** For the first quarter ended March 31, 2010 and 2009, the amount of gain or (loss) recognized in income related to the ineffective portion of the hedging relationships.

Aluminum and Energy. Alcoa anticipates the continued requirement to purchase aluminum and other commodities, such as electricity, natural gas, and fuel oil, for its operations. Alcoa enters into futures and forward contracts to reduce volatility in the price of these commodities. Alcoa has also entered into power supply and other contracts that contain pricing provisions related to the LME aluminum price. The LME-linked pricing features are considered embedded derivatives. A majority of these embedded derivatives have been designated as cash flow hedges of future sales of aluminum.

Foreign Exchange. Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. These contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods consistent with known or expected exposures through 2011.

Alcoa had the following outstanding forward contracts that were entered into to hedge forecasted transactions:

	March 31, 2010	December 31, 2009
Aluminum contracts (kmt)	1,736	1,917
Energy contracts:		
Electricity (megawatt hours)	100,578,295	
Natural gas (million British thermal units)	10,170,000	13,560,000
Fuel oil (metric tons)	232,037	307,143
Foreign exchange contracts	$ 125	$ 158

Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited) (Continued)

(dollars in millions, except per-share amounts)

Other

Alcoa has also entered into certain derivatives to minimize its price risk related to other customer sales and pricing arrangements. Alcoa has not qualified these contracts for hedge accounting treatment and, therefore, the fair value gains and losses on these contracts are recorded in earnings as follows:

Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivatives**	**Amount of Gain or (Loss) Recognized in Income on Derivatives First quarter ended March 31, 2010**	**2009**
Aluminum contracts	Sales	$ 1	$ (12)
Aluminum contracts	Other expenses, net	(8)	11
Embedded credit derivative	Other expenses, net	(6)	(21)
Energy contracts	Other expenses, net	(33)	
Foreign exchange contracts	Other expenses, net	3	2
Total		$ (43)	$ (20)

The embedded credit derivative relates to a power contract that indexes the difference between the long-term debt ratings of Alcoa and the counterparty from any of the three major credit rating agencies. If Alcoa s credit ratings were downgraded at any time, an independent investment banker would be consulted to determine a hypothetical interest rate for both parties. The two interest rates would be netted and the resulting difference would be multiplied by Alcoa s equivalent percentage of the outstanding principal of the counterparty s debt obligation as of December 31st of the year preceding the calculation date. This differential would be added to the cost of power in the period following the calculation date.

The energy contracts are associated with a smelter in the U.S. and include a power contract that no longer qualified for the normal purchase normal sale exception and a financial contract that no longer qualified as a hedge under derivative accounting in late 2009. Both contracts are marked to market through earnings and Alcoa s obligations under the contracts expire in 2011.

Alcoa has a forward contract to purchase $56 (C$58) to mitigate the foreign currency risk related to a Canadian-denominated loan due in 2014. All other foreign exchange contracts were entered into and settled within the 2010 and 2009 first quarters.

Material Limitations

The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa s control and could vary significantly from those factors disclosed.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers commitments. Although nonperformance is possible, Alcoa does not anticipate nonperformance by any of these parties. Contracts are with creditworthy counterparties and are further supported by cash, treasury bills, or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited) (Continued)

(dollars in millions, except per-share amounts)

Other Financial Instruments

The carrying values and fair values of Alcoa s other financial instruments were as follows:

	March 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 1,292	$ 1,292	$ 1,481	$ 1,481
Restricted cash	8	8	8	8
Noncurrent receivables	21	21	24	24
Available-for-sale securities	88	88	105	105
Short-term borrowings	166	166	176	176
Long-term debt due within one year	666	666	669	669
Long-term debt, less amount due within one year	8,925	9,606	8,974	9,885

The following methods were used to estimate the fair values of other financial instruments:

Cash and cash equivalents, Restricted cash, Short-term borrowings, and Long-term debt due within one year. The carrying amounts approximate fair value because of the short maturity of the instruments.

Noncurrent receivables. The fair value of noncurrent receivables was based on anticipated cash flows, which approximates carrying value.

Available-for-sale securities. The fair value of such securities was based on quoted market prices. These financial instruments consist of exchange-traded fixed income and equity securities, which are carried at fair value and were classified in Level 1 of the fair value hierarchy.

Long-term debt, less amount due within one year. The fair value was based on interest rates that are currently available to Alcoa for issuance of debt with similar terms and maturities.

Q. Subsequent Events Management evaluated all activity of Alcoa and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements, except as disclosed in the European Commission Matters section of Note H related to a matter in Italy.

Report of Independent Registered Public Accounting Firm*

To the Shareholders and Board of Directors of Alcoa Inc.

We have reviewed the accompanying consolidated balance sheet of Alcoa Inc. and its subsidiaries (Alcoa) as of March 31, 2010, and the related statements of consolidated operations, changes in consolidated equity, consolidated comprehensive (loss) income, and consolidated cash flows for each of the three-month periods ended March 31, 2010 and 2009. These consolidated interim financial statements are the responsibility of Alcoa s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2009, and the related statements of consolidated operations, changes in consolidated equity, consolidated comprehensive income (loss), and consolidated cash flows for the year then ended (not presented herein), and in our report dated February 18, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2009, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
April 22, 2010

* This report should not be considered a report within the meanings of Sections 7 and 11 of the 1933 Act and the independent registered public accounting firm s liability under Section 11 does not extend to it.

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

(dollars in millions, except per share amounts and ingot prices; production and shipments in thousands of metric tons [kmt])

Forward-Looking Statements

This report contains statements that relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those containing such words as anticipates, believes, estimates, expects, hopes, targets, should, will, will likely result, forecast, outlook, projects, or meaning. All statements that reflect Alcoa s expectations, assumptions, or projections about the future other than statements of historical fact are forward-looking statements, including, without limitation, forecasts concerning aluminum industry growth or other trend projections, anticipated financial results or operating performance, and statements about Alcoa s strategies, objectives, goals, targets, outlook, and business and financial prospects. Forward-looking statements are subject to a number of known and unknown risks, uncertainties, and other factors and are not guarantees of future performance. Actual results, performance, or outcomes may differ materially from those expressed in or implied by those forward-looking statements. For a discussion of some of the specific factors that may cause Alcoa s actual results to differ materially from those projected in any forward-looking statements, see Alcoa s Form 10-K, Part I, Item 1A, for the year ended December 31, 2009 and the following sections of this report: Note H and the Derivatives section of Note P to the Consolidated Financial Statements and the discussion included below under Segment Information. Alcoa disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events, or otherwise, except as required by applicable law.

Results of Operations

Selected Financial Data:

	First quarter ended March 31, 2010	2009
Sales	$ 4,887	$ 4,147
Amounts attributable to Alcoa common shareholders:		
Loss from continuing operations	$ (194)	$ (480)
Loss from discontinued operations	(7)	(17)
Net loss	$ (201)	$ (497)
Earnings per share attributable to Alcoa common shareholders:		
Diluted Loss from continuing operations	$ (0.19)	$ (0.59)
Diluted Net loss	(0.20)	(0.61)
Shipments of alumina (kmt)	2,126	1,737
Shipments of aluminum products (kmt)	1,134	1,175
Alcoa s average realized price per metric ton of aluminum	$ 2,331	$ 1,567

Loss from continuing operations attributable to Alcoa was $194, or $0.19 per diluted share, in the 2010 first quarter compared with $480, or $0.59 per share, in the 2009 first quarter. The improvement of $286, or 60%, was primarily the result of the following: significant increases in realized prices for alumina and aluminum, continued costs savings and productivity improvements across all businesses, and the absence of a loss on the sale of an equity investment, partially offset by net unfavorable foreign currency movements, discrete and other income tax charges, the absence of a gain on the exchange of equity interests, and restructuring and other charges for the permanent shutdown and planned demolition of certain U.S. structures.

Net loss attributable to Alcoa for the 2010 first quarter was $201, or $0.20 per share, compared with $497, or $0.61 per share, for the corresponding period in 2009. Net loss in the 2010 first quarter included a loss of $7 from discontinued operations, mostly related to an additional loss for the wire harness and electrical portion of the Electrical and Electronic Solutions (EES) business sold in June 2009 as a result of a contract settlement with a former customer of this business. Net loss in the 2009 first quarter included a loss of $17 from discontinued operations, comprised of the operational results of the EES business.

Sales for the 2010 first quarter increased $740, or 18%, compared with the same period in 2009. The improvement was mainly driven by a rise in realized prices for alumina and aluminum, as a result of significantly higher London Metal Exchange (LME) prices, and sales from the smelters in Norway (acquired on March 31, 2009), somewhat offset by volume declines in the downstream segments due to continued weak end markets.

Cost of goods sold (COGS) as a percentage of Sales was 82.1% in the 2010 first quarter compared with 99.9% in the 2009 first quarter. The percentage was positively impacted by a significant improvement in realized prices for alumina and aluminum and continued cost savings and productivity improvements across all businesses, somewhat offset by net unfavorable foreign currency movements due to a weaker U.S. dollar.

Selling, general administrative, and other expenses (SG&A) decreased $5 in the 2010 first quarter compared with the corresponding period in 2009. The decline was primarily driven by continued reductions in expenses for contractors and consultants and a decrease in bad debt expense, mostly offset by an increase in labor costs (principally due to higher deferred compensation as a result of improved plan performance and higher annual incentive and performance compensation) and SG&A related to the smelters in Norway (acquired on March 31, 2009). SG&A as a percentage of Sales declined from 5.9% in the 2009 first quarter to 4.9% in the 2010 first quarter.

The Provision for depreciation, depletion, and amortization (DD&A) increased $75, or 27%, in the 2010 first quarter compared to the 2009 first quarter. The increase in DD&A was mostly due to the smelters in Norway (acquired on March 31, 2009) and assets placed into service during the second half of 2009, including the Juruti bauxite mine and São Luís refinery expansion in Brazil, the new Bohai (China) flat-rolled product facility, and a high-quality coated sheet line at the Samara (Russia) facility.

Restructuring and other charges in the 2010 first quarter were $187 ($119 after-tax and noncontrolling interests), comprised of the following components: $129 ($81 after-tax and noncontrolling interests) in asset impairments and $46 ($29 after-tax and noncontrolling interests) in other exit costs related to the permanent shutdown and planned demolition of certain idled structures at five U.S. locations and $12 ($9 after-tax and noncontrolling interests) in net charges for various other restructuring activities, including charges for the layoff of approximately 220 employees. In the 2010 first quarter, management approved the permanent shutdown and demolition of the following structures, each of which was previously temporarily idled for different reasons: the Eastalco smelter located in Frederick, MD (capacity of 195 kmt-per-year), the smelter located in Badin, NC (capacity of 60 kmt-per-year), an aluminum fluoride plant in Point Comfort, TX, a paste plant and cast house in Massena, NY, and one potline at the smelter in Warrick, IN (capacity of 40 kmt-per-year). This decision was made after a comprehensive strategic analysis was performed to determine the best course of action for each facility. Factors leading to this decision included current market fundamentals, cost competitiveness, other existing idle capacity, required future capital investment, and restart costs, as well as the elimination of ongoing holding costs. The asset impairments of $129 represent the write off of the remaining book value of properties, plants, and equipment related to these facilities. Additionally, remaining inventories, mostly operating supplies, were written down to their net realizable value resulting in a charge of $8 ($5 after-tax and noncontrolling interests), which was recorded in Cost of goods sold. The other exit costs of $46 represent $30 ($19 after-tax and noncontrolling interests) in asset retirement obligations and $14 ($9 after-tax) in environmental remediation, both triggered by the decision to permanently shutdown and demolish these structures, and $2 ($1 after-tax and noncontrolling interests) in other related costs.

Restructuring and other charges in the 2009 first quarter were $69 ($46 after-tax and noncontrolling interests), comprised of the following components: $48 ($32 after-tax and noncontrolling interests) for the layoff of approximately 2,500 employees (2,190 in the Engineered Products and Solutions segment, 160 in the Primary Metals segment, 60 in the Flat-Rolled Products segment, and 90 in Corporate) to address the impact of the global economic downturn on Alcoa s businesses; $18 ($12 after-tax) for the write-off of previously capitalized third-party costs related to potential business acquisitions due to the adoption of changes to accounting for business combinations; and $3 ($2 after-tax and noncontrolling interests) in net charges associated with previously approved restructuring programs.

Alcoa does not include Restructuring and other charges in the results of its reportable segments. The pretax impact of allocating Restructuring and other charges to such results would have been as follows:

	First quarter ended March 31,	
	2010	2009
Alumina	$ 12	$
Primary Metals	150	11
Flat-Rolled Products	(5)	4
Engineered Products and Solutions	4	27
Segment total	161	42
Corporate	26	27
Total restructuring and other charges	$ 187	$ 69

As of March 31, 2010, approximately 90 of the 220 employees associated with 2010 restructuring programs, approximately 4,900 of the 6,600 employees associated with 2009 restructuring programs, and approximately 5,900 of the 6,200 employees associated with 2008 restructuring programs were terminated. The remaining terminations for all of these restructuring programs are expected to be completed by the end of 2010. In the 2010 first quarter, cash payments of $2, $37, and $7 were made against the layoff reserves related to the 2010, 2009, and 2008 restructuring programs, respectively.

Interest expense rose $4, or 4%, in the 2010 first quarter compared with the corresponding period in 2009. The increase was primarily due to a $24 decline in interest capitalized, mainly the result of placing the Juruti and São Luís growth projects in service in the second half of 2009, mostly offset by a 6% lower average debt level, principally driven by the absence of outstanding commercial paper.

Other expenses, net declined $9, or 30%, in the 2010 first quarter compared with the 2009 first quarter. The decrease was mainly the result of the absence of a $182 realized loss on the sale of the Shining Prospect investment and an equity loss related to Alcoa s former 50% equity stake in Elkem; favorable foreign currency movements, primarily due to a stronger Australian dollar and Brazilian real; and net gains related to the improvement in the cash surrender value of company-owned life insurance; mostly offset by the absence of a $188 gain on the Elkem/Sapa AB exchange transaction and a $22 gain on the sale of property in Vancouver, WA; and unfavorable changes in mark-to-market derivative contracts.

The effective tax rate for the first quarter of 2010 and 2009 was 95.5% (provision on a loss) and 39.5% (benefit on a loss), respectively. The rate for the 2010 first quarter differs by 130.5% from the U.S. federal statutory rate of 35% primarily due to a $79 discrete income tax charge as a result of a change in the tax treatment of federal subsidies received related to prescription drug benefits provided under certain retiree health care benefit plans that were determined to be actuarially equivalent to Medicare Part D, a $22 impact for operational losses in certain foreign jurisdictions that are excluded from the estimated annual effective tax rate calculation (impact is expected to reverse by the end of 2010), and $11 in discrete income tax charges for interest paid to the Internal Revenue Service on a previously deferred gain associated with the 2007 formation of the former soft alloy extrusions joint venture and a change in the anticipated structure of the potential sale of the Transportation Products Europe business.

The rate for the 2009 first quarter differs from the U.S. federal statutory rate of 35% primarily due to a $28 discrete income tax benefit related to a Canadian tax law change allowing a tax return to be filed in U.S dollars, an $11 discrete income tax benefit related to the Elkem/Sapa AB exchange transaction, and a $15 impact for operational losses that are excluded from the estimated annual effective tax rate calculation.

Net income attributable to noncontrolling interests for the 2010 first quarter increased $12 compared with the corresponding period in 2009. The increase was primarily due to higher earnings at Alcoa World Alumina and Chemicals (AWAC), which is owned 60% by Alcoa and 40% by Alumina Limited. The improved earnings at AWAC were mainly driven by a significant rise in realized prices, mostly offset by net unfavorable foreign currency movements due to a weaker U.S. dollar and higher depreciation and operating costs related to the Juruti and São Luís growth projects placed into service in the second half of 2009.

Segment Information

I. Alumina

	First quarter ended March 31,	
	2010	2009
Alumina production (kmt)	3,866	3,445
Third-party alumina shipments (kmt)	2,126	1,737
Third-party sales	$ 638	$ 430
Intersegment sales	591	384
Total sales	$ 1,229	$ 814
After-tax operating income (ATOI)	$ 72	$ 35

Alumina production increased 12% in the 2010 first quarter compared with the corresponding period in 2009. The increase was driven by the Point Comfort, TX refinery as most of the 1,500 kmt-per-year curtailment initiated between the fourth quarter of 2008 and the first quarter of 2009 has been restored. In addition, production in the first quarter of 2010 included the continued ramp-up of the expansion of the São Luís, Brazil refinery, which began in late 2009 (the Alumina segment s share is approximately 1,100 kmt-per-year).

Third-party sales for the Alumina segment rose 48% in the 2010 first quarter compared with the same period in 2009, primarily due to a 41% increase in realized prices, driven by significantly higher LME prices, coupled with a 22% increase in volumes.

Intersegment sales increased 54% in the 2010 first quarter compared to the corresponding period in 2009, mostly due to higher realized prices and an increase in demand from the Primary Metals segment.

ATOI for this segment increased $37 in the 2010 first quarter compared to the same period in 2009. The increase was primarily the result of the significant increase in realized prices as well as continued benefits of cost savings initiatives, partially offset by unfavorable foreign currency movements due to a weaker U.S. dollar, higher fuel oil costs, and higher depreciation expense and operating costs associated with the start-up of the Juruti bauxite mine.

In the second quarter of 2010, positive results from cost savings initiatives are expected to continue, as lower caustic costs continue to flow through the system. Alumina pricing will continue to follow a two-month lag on LME and refinery production is expected to increase by 100 kmt in order to match smelter demand.

II. Primary Metals

	First quarter ended March 31, 2010	2009
Aluminum production (kmt)	889	880
Third-party aluminum shipments (kmt)	695	683
Alcoa s average realized price per metric ton of aluminum	$ 2,331	$ 1,567
Third-party sales	$ 1,702	$ 844
Intersegment sales	623	393
Total sales	$ 2,325	$ 1,237
ATOI	$ 123	$ (212)

At March 31, 2010, Alcoa had 907 kmt of idle capacity on a base capacity of 4,518 kmt. In the 2010 first quarter, idle capacity decreased 327 kmt compared to December 31, 2009 due to the restart of 32 kmt of previously curtailed production capacity at a smelter in Brazil and the decision to permanently curtail the smelters located in Frederick, MD (195 kmt-per-year) and Badin, NC (60 kmt-per-year) and one potline (40 kmt-per-year) at the smelter in Warrick, IN. Base capacity decreased 295 kmt due to the previously mentioned permanent curtailments. The decision to permanently curtail these facilities was made after a comprehensive strategic analysis was performed to determine the best course of action for each facility. Factors leading to this decision included current market fundamentals, cost competitiveness, other existing idle capacity, required future capital investment, and restart costs, as well as the elimination of ongoing holding costs.

Aluminum production increased 1% in the 2010 first quarter compared with the corresponding period in 2009. The increase was mainly due to the smelters located in Norway (acquired on March 31, 2009) (282 kmt-per-year), mostly offset by the curtailments of the smelters in Tennessee (215 kmt-per-year, curtailed during Q1 2009) and Massena East (125 kmt-per-year, curtailed during Q2 2009).

Third-party sales for the Primary Metals segment improved $858 in the 2010 first quarter compared with the same period in 2009. The increase was mostly the result of a 49% rise in realized prices, driven by 59% higher LME prices.

Intersegment sales increased 59% in the 2010 first quarter compared to the corresponding period in 2009, mainly as a result of an increase in realized prices, driven by the higher LME.

ATOI for this segment improved $335 in the 2010 first quarter compared to the same period in 2009. The increase was primarily due to the significant rebound in realized prices and continued benefits of cost savings initiatives, somewhat offset by the absence of a gain related to Alcoa s acquisition of the other 50% of Elkem ($112) and net unfavorable foreign currency movements due to a weaker U.S. dollar.

In the second quarter of 2010, aluminum pricing is expected to follow a 15-day lag on LME while production is expected to remain at 2010 first quarter levels. Additionally, procurement actions and productivity improvements are expected to continue to benefit results. The Master Agreement with the United Steelworkers, which covers 5,350 employees, expires on May 31st. While management is confident that a mutually acceptable agreement will be reached, actions will be taken to ensure business continuity if any disruption should occur.

III. Flat-Rolled Products

	First quarter ended March 31, 2010	2009
Third-party aluminum shipments (kmt)	379	442
Third-party sales	$ 1,435	$ 1,510
Intersegment sales	46	26
Total sales	$ 1,481	$ 1,536
ATOI	$ 30	$ (61)

Third-party sales for the Flat-Rolled Products segment declined 5% in the 2010 first quarter compared with the corresponding period in 2009. The improvement in most key end markets almost offsets entirely the lower volumes in the segment s can sheet business, largely due to a decision to curtail sales to a North American customer, and the absence of sales from two foil plants sold in late 2009.

ATOI for this segment increased $91 in the 2010 first quarter compared to the same period in 2009. The improvement in profitability was primarily driven by favorable pricing and product mix and increased productivity.

In the second quarter of 2010, continued benefits from cost savings initiatives are expected and modest improvement in aerospace and industrial markets. North American can sheet volumes are expected to remain at low levels.

IV. Engineered Products and Solutions

	First quarter ended March 31, 2010	2009
Third-party aluminum shipments (kmt)	46	41
Third-party sales	$ 1,074	$ 1,270
ATOI	$ 81	$ 95

Third-party sales for the Engineered Products and Solutions segment declined 15% in the 2010 first quarter compared with the corresponding period in 2009. The decrease was mostly due to continued supply chain destocking and low levels of demand in both the aerospace and industrial gas turbine (IGT) markets. Weak demand in building and construction also contributed to the revenue decline.

ATOI for this segment declined 15% in the 2010 first quarter compared to the same period in 2009. The decrease was mainly due to lower pricing and lower volumes with continued pressure in the IGT and aerospace markets. The declines were partially offset by productivity improvements due to strong performance in cost savings initiatives.

In the second quarter of 2010, continued benefits from cost savings initiatives and slight improvements in overall market conditions are anticipated. Additionally, aerospace destocking is expected to slowly come to an end.

Reconciliation of ATOI to Consolidated Net Loss Attributable to Alcoa

Items required to reconcile segment ATOI to consolidated net loss attributable to Alcoa include: the impact of LIFO inventory accounting; interest income and expense; noncontrolling interests; corporate expense (general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities, along with depreciation and amortization on corporate-owned assets); restructuring and other charges; discontinued operations; and other items, including intersegment profit eliminations and other metal adjustments, differences between tax rates applicable to the segments and the consolidated effective tax rate, the results of the soft alloy extrusions business in Brazil, and other nonoperating items such as foreign currency translation gains/losses.

The following table reconciles total segment ATOI to consolidated net loss attributable to Alcoa:

	First quarter ended March 31,	
	2010	**2009**
Total segment ATOI	$ 306	$ (143)
Unallocated amounts (net of tax):		
Impact of LIFO	(14)	29
Interest income	3	1
Interest expense	(77)	(74)
Noncontrolling interests	(22)	(10)
Corporate expense	(67)	(71)
Restructuring and other charges	(122)	(46)
Discontinued operations	(7)	(17)
Other	(201)	(166)
Consolidated net loss attributable to Alcoa	$ (201)	$ (497)

The significant changes in the reconciling items between total segment ATOI and consolidated net loss attributable to Alcoa for the 2010 first quarter compared with the corresponding period in 2009 consisted of:

a change in the Impact of LIFO due to higher prices for alumina and metal, both of which were driven by a significant rise in LME prices;

an increase in Interest expense, primarily due to a decline in interest capitalized, mainly the result of placing the Juruti and São Luís growth projects in service in the second half of 2009, mostly offset by a 6% lower average debt level, principally driven by the absence of outstanding commercial paper;

an increase in Noncontrolling interests, mainly due to higher earnings at AWAC, primarily driven by a significant rise in realized prices, mostly offset by net unfavorable foreign currency movements due to a weaker U.S. dollar and higher depreciation and operating costs related to the Juruti and São Luís growth projects placed into service in the second half of 2009;

a decline in Corporate expense, primarily due to continued reductions in expenses for contractors and consultants and a decrease in bad debt expense, mostly offset by an increase in labor costs, principally due to higher deferred compensation as a result of improved plan performance and higher annual incentive and performance compensation;

an increase in Restructuring and other charges, mainly due to asset impairments and other exit costs related to the permanent shutdown and planned demolition of certain idled structures at five U.S. locations and the absence of charges for the layoff of approximately 2,500 employees to address the impact of the global economic downturn on Alcoa s businesses and for the write off of previously capitalized third-party costs related to potential business acquisitions due to the adoption of changes to accounting for business combinations;

a change in Discontinued operations, mostly the result of an additional loss for the wire harness and electrical portion of the Electrical and Electronic Solutions (EES) business sold in June 2009 as a result of a contract settlement with a former customer of this business and the absence of the operational results of the EES business; and

a change in Other, mainly due to a $79 discrete income tax charge as a result of a change in the tax treatment of federal subsidies received related to prescription drug benefits provided under certain retiree health care benefit plans that were determined to be actuarially equivalent to Medicare Part D; a $22 impact for operational losses in certain foreign jurisdictions that are excluded from the estimated annual effective tax rate calculation; and the absence of the following: a $28 discrete income tax benefit related to a Canadian tax law change allowing a tax return to be filed in U.S. dollars, a $15 impact for operational losses in certain foreign jurisdictions that are excluded from the estimated annual effective tax rate calculation, and a $21 adjustment for the finalization of the estimated fair value of the Sapa AB joint venture; partially offset by the absence of a $118 realized loss on the sale of the Shining Prospect investment.

Environmental Matters

See the Environmental Matters section of Note H to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Liquidity and Capital Resources

Cash From Operations

Cash provided from operations was $199 in the 2010 first quarter compared with cash used for operations of $271 in the same period of 2009. The improvement of $470 is principally due to a significantly lower net loss, somewhat offset by a change of $84 in noncurrent assets and liabilities and a $47 cash outflow associated with working capital. The major components of the change in working capital were as follows: a $478 increase in receivables, primarily as a result of higher sales across the upstream businesses; a $628 increase in inventories, mostly due to a build-up of levels to meet anticipated demand; a $419 increase in accounts payable, trade, principally the result of the absence of a significant drop in purchasing needs; and a $660 increase in taxes, including income taxes, mainly due to the receipt of a $347 federal income tax refund for the carryback of Alcoa s 2009 net loss to prior tax years.

Financing Activities

Cash used for financing activities was $180 in the 2010 first quarter, a decrease of $683 compared with cash provided from financing activities of $503 in the corresponding period of 2009.

The use of cash in the 2010 first quarter was primarily due to $86 in payments on long-term debt, $80 of which was related to previous borrowings on the loans supporting the São Luís refinery expansion and Juruti bauxite mine development in Brazil; $66 in acquisitions of noncontrolling interests, mainly the result of the $60 paid to redeem the convertible securities of a subsidiary held by Alcoa s partner in a special purpose vehicle, which holds an interest in the joint venture in Saudi Arabia; net cash paid to noncontrolling interests of $45, all of which relates to Alumina Limited s share of AWAC; and $32 in dividends paid to shareholders; somewhat offset by $53 in additions to long-term debt, all of which related to borrowings under the loans that support the Estreito hydroelectric power project in Brazil.

In the 2009 first quarter, the source of cash was primarily due to net proceeds of $876 from the issuance of 172.5 million shares of common stock; $689 in additions to long-term debt, mainly driven by net proceeds of $562 from the issuance of $575 in convertible notes and $105 in borrowings under the loans that support the São Luís refinery expansion, Juruti bauxite mine development, and Estreito hydroelectric power project in Brazil; a $209 net change in short-term borrowings ($1,300 was borrowed and repaid under Alcoa s former $1,900 364-day senior unsecured revolving credit facility within the 2009 first quarter), principally the result of $255 in loans to support Alcoa Alumínio s export operations; and net cash received from noncontrolling interests of $82, principally related to Alumina Limited s share of AWAC; partially offset by a $1,202 decrease in outstanding commercial paper due to the tightening in the credit markets and a reduction in market availability as a result of Alcoa s credit ratings and $137 in dividends paid to shareholders.

On March 30, 2010, Moody s Investors Service (Moody s) confirmed the following ratings for Alcoa: long-term debt at Baa3 and short-term debt at Prime-3. Alcoa s ratings were under review since December 21, 2009. The report stated that the confirmation of Alcoa s ratings reflects Moody s expectation that a meaningful level of the cost savings initiatives implemented by Alcoa in 2009 is permanent. This, in conjunction with moderately improving fundamentals for the aluminum industry, should translate to improved earnings generation in each of the Company s four operating segments and improving debt protection coverage ratios. The confirmation also acknowledges Alcoa s very strong market position and competitive cost position in bauxite and alumina, which should benefit disproportionately to primary metals as worldwide aluminum demand recovers and provide strong support to earnings improvement in 2010. Moody s removed all ratings from credit watch and the current outlook was changed from stable to negative. The change in the outlook reflects high inventory levels on the exchanges and Moody s view of the challenging conditions still facing the Company given the uneven pace of recovery in key end markets for aluminum on a global basis and the potential for a correction in aluminum prices.

On February 22, 2010, Fitch Ratings (Fitch) affirmed the following ratings for Alcoa: long-term debt at BBB- and short-term debt at F3. The report stated that, in Fitch s view, cash balances and free cash flow should be ample to repay scheduled maturities of debt in 2010 during a period of weak recovery given Alcoa s actions to reduce its operating base, its maintenance capital expenditures and raw materials costs. Fitch did not change the current outlook from negative. The unchanged outlook reflects limited earnings visibility and pressures on the aluminum market from growing high inventories and persistent surplus production. The report further stated that Fitch s ratings reflect Alcoa s leading position in the industry, its strength in low-cost alumina production, and the operating flexibility afforded by the scope of the Company s operations.

Investing Activities

Cash used for investing activities was $208 in the 2010 first quarter compared with cash provided from investing activities of $136 in the 2009 first quarter, resulting in an increase in cash used of $344.

In the 2010 first quarter, the use of cash was mainly due to $221 in capital expenditures, 60% of which related to growth projects, including the Estreito hydroelectric power project, Juruti bauxite mine development, and São Luís refinery expansion; and $129 in additions to investments, mostly for the purchase of $121 in available-for-sale securities held by Alcoa s captive insurance company; partially offset by $137 in sales of investments, all of which related to the sale of available-for-sale securities held by Alcoa s captive insurance company.

The source of cash in the 2009 first quarter was mainly due to $506 from sales of investments, mostly related to the receipt of $501 for the sale of the Shining Prospect investment; and $116 in proceeds from the sales of assets and businesses, primarily related to the collection of a note related to the 2007 sale of the Three Oaks mine and the sale of property in Vancouver, WA; mostly offset by $471 in capital expenditures, 70% of which related to growth projects, including the São Luís refinery expansion and Juruti bauxite mine development.

Recently Adopted and Recently Issued Accounting Guidance

See Note B to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See the Derivatives section of Note P to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Alcoa s Chief Executive Officer and Chief Financial Officer have evaluated the company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report, and they have concluded that these controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the first quarter of 2010, that have materially affected, or are reasonably likely to materially affect, the company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Alcoa is involved in remediation activities pursuant to Administrative Orders issued by the U.S. Environmental Protection Agency and other state and local environmental authorities. The most significant of these matters, including the remediation of the Grasse River in Massena, NY, are discussed in the Environmental Matters section of Note H to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

As previously reported, in January 2006, in Musgrave v. Alcoa, et al, Warrick Circuit Court, County of Warrick, Indiana; 87-C01-0601-CT-0006, Alcoa Inc. and a subsidiary were sued by an individual, on behalf of himself and all persons similarly situated, claiming harm from alleged exposure to waste that had been disposed in designated pits at the Squaw Creek Mine in the 1970s. During February 2007, class allegations were dropped and the matter now proceeds as an individual claim. On April 8, 2010, the court set trial for January 10, 2011.

Also as previously reported, in October 2006, in Barnett, et al. v. Alcoa and Alcoa Fuels, Inc., Warrick Circuit Court, County of Warrick, Indiana; 87C01-0601-PL-499, forty-one plaintiffs sued Alcoa Inc. and a subsidiary, asserting claims similar to the Musgrave matter, discussed above. In November 2007, Alcoa Inc. and its subsidiary filed motions to dismiss both the Musgrave and Barnett cases. In October 2008, the Warrick County Circuit Court granted Alcoa s motions to dismiss, dismissing all claims arising out of alleged occupational exposure to wastes at the Squaw Creek Mine, but in November 2008, the trial court clarified its ruling, indicating that the order does not dispose of plaintiffs personal injury claims based upon alleged recreational or non-occupational exposure. The parties have each requested that the court certify an interlocutory appeal from the court s rulings and the court indicated that it will grant the parties request. Plaintiffs also filed a second amended complaint in response to the court s orders granting Alcoa s motions to dismiss. The trial court is likely to stay any further proceedings regarding the second amended complaint while the parties pursue an interlocutory appeal to the Indiana Court of Appeals. On April 8, 2010, the court set a trial date in two individual claims, Kirk and Hedrick, for February 9, 2011 and April 11, 2011, respectively. Discovery in these cases has commenced. The company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, in July 2006, the European Commission (EC) announced that it had opened an investigation to establish whether an extension of the regulated electricity tariff granted by Italy to some energy-intensive industries complies with European Union (EU) state aid rules. The Italian power tariff extended the tariff that was in force until December 31, 2005 through November 19, 2009 (Alcoa has been incurring higher power costs at its smelters in Italy subsequent to the tariff end date). The extension was originally through 2010, but the date was changed by legislation adopted by the Italian Parliament effective on August 15, 2009. Prior to expiration of the tariff in 2005, Alcoa had been operating in Italy for more than 10 years under a power supply structure approved by the EC in 1996. That measure provided a competitive power supply to the primary aluminum industry and was not considered state aid from the Italian Government. The EC s announcement expressed concerns about whether Italy s extension of the tariff beyond 2005 was compatible with EU legislation and potentially distorted competition in the European market of primary aluminum, where energy is an important part of the production costs.

On November 19, 2009, the EC announced a decision in this matter stating that the extension of the tariff by Italy constituted unlawful state aid, in part, and, therefore, the Italian Government is to recover a portion of the benefit Alcoa received since January 2006 (including interest). The amount of this recovery will be based on a calculation that is being prepared by the Italian Government. Pending notification from the Italian Government, Alcoa estimates that a payment in the range of $300 to $500 million will be required during 2010. In late 2009, after discussions with legal counsel and reviewing the bases on which the EC decided, including the different considerations cited in the EC decision regarding Alcoa s two smelters in Italy, Alcoa recorded a charge of $250 million, including $20 million to write-off a receivable from the Italian Government for amounts due under the now expired tariff structure. On April 19, 2010, Alcoa filed an appeal of this decision with the General Court of the EU. Alcoa will pursue all substantive and procedural legal steps available to annul the EC s decision, including seeking injunctive relief to suspend the effectiveness of the decision.

Separately, on November 29, 2006, Alcoa filed an appeal before the European Court of First Instance seeking the annulment of the EC s decision to open an investigation alleging that such decision did not follow the applicable procedural rules. On March 25, 2009, the European Court of First Instance denied Alcoa s appeal. On June 4, 2009, Alcoa appealed the March 25, 2009 ruling; however, no decision on that appeal is expected until 2011 or later.

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

(c) Issuer Purchases of Equity Securities:

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs (b)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
January 1 - January 31, 2010				115,800,571
February 1 - February 28, 2010				115,800,571
March 1 - March 31, 2010				115,800,571
Total for quarter ended March 31, 2010				115,800,571

(a) This column includes (i) purchases under Alcoa s publicly announced share repurchase program described in (b) below and (ii) the deemed surrender to the company by plan participants of shares of common stock to satisfy the exercise price related to the exercise of employee stock options, in each case to the extent applicable during the period indicated. The shares used to satisfy the exercise price related to stock options are not considered part of the publicly announced share repurchase program approved by Alcoa s Board of Directors as described in (b) below.

(b) On October 8, 2007, Alcoa s Board of Directors approved a new share repurchase program, which was publicly announced by Alcoa on October 9, 2007. The new program authorizes the purchase of up to 25% (or approximately 217 million shares) of the outstanding common stock of Alcoa at December 31, 2006, in the open market or though privately negotiated transactions, directly or through brokers or agents, and expires on December 31, 2010. In October 2009, Alcoa elected to suspend share repurchases under this program to preserve liquidity in light of the global economic downturn.

Item 6. Exhibits.

10(a).	Registration Rights Agreement, dated as of January 26, 2010, by and between Alcoa Inc. and Evercore Trust Company, N.A., solely in its capacity as duly appointed and acting investment manager of a segregated account held in the Alcoa Master Retirement Plans Trust, incorporated by reference to Exhibit 10 to the company s Current Report on Form 8-K dated January 26, 2010
10(b).	Consulting Agreement, dated February 22, 2010, between Alcoa Inc. and Bernt Reitan, effective August 1, 2010
10(c).	First Supplemental Agreement, dated March 30, 2010, to the Aluminium Project Framework Shareholders Agreement, dated December 20, 2009, between Saudi Arabian Mining Company (Ma aden) and Alcoa Inc.
10(d).	Purchase Agreement, dated March 30, 2010, between Alcoa Inc., Aluminum Financing Limited, and Abdullah Abunayyan Trading Corp.
10(e).	Terms and Conditions for Special Retention Awards under the 2009 Alcoa Stock Incentive Plan, effective January 1, 2010
12.	Computation of Ratio of Earnings to Fixed Charges
15.	Letter regarding unaudited interim financial information
31.	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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

SIGNATURES

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

	Alcoa Inc.	
April 22, 2010 Date	By	/s/ CHARLES D. MCLANE, JR. **Charles D. McLane, Jr.** **Executive Vice President and Chief Financial Officer** **(Principal Financial Officer)**
April 22, 2010 Date	By	/s/ TONY R. THENE **Tony R. Thene** **Vice President and Controller** **(Principal Accounting Officer)**

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