HEXCEL CORP /DE/
Form 10-Q
April 27, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10–Q

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

For the Quarter Ended March 31, 2009

or

o Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-8472

Hexcel Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-1109521**
(State of Incorporation)	(I.R.S. Employer Identification No.)

Two Stamford Plaza

281 Tresser Boulevard

Stamford, Connecticut 06901-3238

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: **(203) 969-0666**

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	**Outstanding at April 23, 2009**
COMMON STOCK	**96,540,050**

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HEXCEL CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (Unaudited)

Hexcel Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(In millions, except per share data)	(Unaudited) March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 27.0**	$ 50.9
Accounts receivable, net	**217.8**	189.4
Inventories, net	**185.3**	195.3
Prepaid expenses and other current assets	**39.3**	45.1
Total current assets	**469.4**	480.7
Property, plant and equipment	**984.2**	971.7
Less accumulated depreciation	**(421.6)**	(419.4)
Net property, plant and equipment	**562.6**	552.3
Goodwill and intangible assets	**55.7**	56.0
Investments in affiliated companies	**10.6**	10.6
Deferred tax assets	**81.5**	88.3
Other assets	**20.0**	22.4
Total assets	**$ 1,199.8**	$ 1,210.3
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable and current maturities of capital lease obligations	**$ 6.6**	$ 2.1
Accounts payable	**103.0**	120.5
Accrued liabilities	**91.9**	101.6
Total current liabilities	**201.5**	224.2
Long-term notes payable and capital lease obligations	**392.0**	392.5
Other non-current liabilities	**80.9**	84.4
Total liabilities	**674.4**	701.1
Stockholders equity:		
Common stock, $0.01 par value, 200.0 shares authorized, 98.5 and 98.3 shares issued at March 31, 2009 and December 31, 2008, respectively	**1.0**	1.0
Additional paid-in capital	**530.7**	526.1
Retained earnings	**38.1**	14.6
Accumulated other comprehensive loss	**(19.9)**	(8.7)
	549.9	533.0
Less Treasury stock, at cost, 1.9 shares at March 31, 2009 and December 31, 2008	**(24.5)**	(23.8)

Total stockholders equity		**525.4**		509.2
Total liabilities and stockholders equity	**$**	**1,199.8**	$	1,210.3

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

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Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

	(Unaudited) Quarter Ended March 31,	
(In millions, except per share data)	**2009**	**2008**
Net sales	**$ 307.3**	$ 344.5
Cost of sales	**230.3**	264.4
Gross margin	**77.0**	80.1
Selling, general and administrative expenses	**29.3**	31.9
Research and technology expenses	**7.8**	8.5
Business consolidation and restructuring expenses		0.6
Other operating expense		2.7
Operating income	**39.9**	36.4
Interest expense, net	**5.4**	5.0
Income before income taxes and equity in earnings of affiliated companies	**34.5**	31.4
Provision for income taxes	**11.2**	9.6
Income before equity in earnings of affiliated companies	**23.3**	21.8
Equity in earnings of affiliated companies	**0.1**	1.4
Net income	**$ 23.4**	$ 23.2
Net income per common share:		
Basic	**$ 0.24**	$ 0.24
Diluted	**$ 0.24**	$ 0.24
Weighted average common shares outstanding:		
Basic	**96.8**	96.1
Diluted	**97.2**	97.7

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

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Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In millions)	(Unaudited) Quarter Ended March 31, 2009	2008
Cash flows from operating activities		
Net income	**$ 23.4**	$ 23.2
Reconciliation to net cash provided by (used for) operating activities:		
Depreciation and amortization	**10.9**	11.0
Amortization of debt discount and deferred financing costs	**0.5**	0.4
Deferred income taxes	**6.8**	5.6
Business consolidation and restructuring expenses		0.6
Business consolidation and restructuring payments	**(0.4)**	(1.5)
Equity in earnings from affiliated companies	**(0.1)**	(1.4)
Stock-based compensation	**4.7**	5.2
Excess tax benefits on stock-based compensation	**0.6**	(0.4)
Changes in assets and liabilities:		
Increase in accounts receivable	**(35.5)**	(35.3)
Decrease (increase) in inventories	**4.6**	(15.4)
Decrease in prepaid expenses and other current assets	**2.0**	4.6
Decrease in accounts payable and accrued liabilities	**(17.1)**	(13.3)
Other net	**2.7**	2.0
Net cash provided by (used for) operating activities	**3.1**	(14.7)
Cash flows from investing activities		
Capital expenditures and deposits for capital purchases	**(28.1)**	(43.9)
Net cash used for investing activities	**(28.1)**	(43.9)
Cash flows from financing activities		
Borrowings from credit line	**4.2**	
Borrowings from senior secured credit facility revolver, net		55.7
Repayments of capital lease obligations and other debt, net	**(0.1)**	(0.1)
Activity under stock plans, including excess tax benefits on stock-based compensation	**(0.7)**	(0.3)
Net cash provided by financing activities	**3.4**	55.3
Effect of exchange rate changes on cash and cash equivalents	**(2.3)**	1.6
Net decrease in cash and cash equivalents	**(23.9)**	(1.7)
Cash and cash equivalents at beginning of period	**50.9**	28.1
Cash and cash equivalents at end of period	**$ 27.0**	$ 26.4

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

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HEXCEL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Significant Accounting Policies

In these notes, the terms Hexcel , we, us, or our mean Hexcel Corporation and subsidiary companies. The accompanying condensed consolidate financial statements are those of Hexcel Corporation. Refer to Note 1 to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of our significant accounting policies.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared from the unaudited records of Hexcel pursuant to rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Certain information and footnote disclosures normally included in financial statements have been omitted pursuant to rules and regulations of the SEC.

In the opinion of management, the condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. The condensed consolidated balance sheet as of December 31, 2008 was derived from the audited 2008 consolidated balance sheet. Interim results are not necessarily indicative of results expected for any other interim period or for the full year. The information included in this Form 10-Q should be read in conjunction with Management s Discussion and Analysis and the financial statements and notes thereto included in our 2008 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161).* SFAS 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity s financial position, financial performance, and cash flows. We adopted the provisions of this statement effective January 1, 2009. As a result, we have expanded our disclosures regarding derivative instruments and hedging activities within Note 6.

In September 2006, the FASB issued FAS 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 , which provides a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In accordance with this interpretation, as of January 1, 2009, the Company adopted the provisions of FAS 157 with respect to its non-financial assets and liabilities that are measured at fair value within the financial statements. See Note 12.

In December 2008 the FASB issued FSP FAS 132 (R)-1, Employers Disclosures about Postretirement Benefit Plan Assets . This FSP expands the disclosure requirements set forth in SFAS No. 132 (R), Employers Disclosures about Pensions and Other Postretirement Benefits by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets and (3) significant concentrations of risk. Additionally, FSP FAS 132(R)-1 requires an employer to disclose information about the valuation of plan assets similar to that required under FAS 157. The standard is effective for our fiscal

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year ending December 31, 2009. The principal impact from this FSP will be to require us to expand our disclosures regarding our benefit plan assets.

In April 2009, the FASB issued FSP FAS 107 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments , which requires fair value disclosures for financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing the FSP, fair values for these assets and liabilities were only disclosed annually. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt the FSP in the second quarter of 2009.

Note 2 - Inventories, net

(In millions)		**March 31, 2009**		**December 31, 2008**
Raw materials	**$**	**81.7**	$	89.2
Work in progress		**38.2**		52.0
Finished goods		**89.1**		77.3
Total inventories, gross	**$**	**209.0**	$	218.5
Inventory allowances		**(23.7)**		(23.2)
Total inventories, net	**$**	**185.3**	$	195.3

Note 3 Retirement and Other Postretirement Benefit Plans

We maintain qualified and nonqualified defined benefit retirement plans covering certain current and former U.S. and European employees, retirement savings plans covering eligible U.S. employees and certain postretirement health care and life insurance benefit plans covering eligible U.S. retirees. We also participate in a union sponsored multi-employer pension plan covering certain U.S. employees with union affiliations. In December 2006, our Board of Directors voted to terminate the U.S. qualified defined benefit plan as of April 1, 2008. We completed the settlement of substantially all U.S. qualified defined benefit plan pension obligations as of March 31, 2008. Refer to our 2008 Annual Report on Form 10-K for further information regarding these plans.

Defined Benefit Retirement Plans

Net Periodic Benefit Costs

Net periodic benefit costs of our defined benefit retirement plans for the quarters ended March 31, 2009 and 2008 were as follows:

(In millions)	U.S. Plans Quarter Ended March 31, 2009	2008	European Plans Quarter Ended March 31, 2009	2008
Service cost	**$ 0.4**	$ 0.4	**$ 0.6**	$ 1.1
Interest cost	**0.3**	0.3	**1.2**	1.9
Expected return on plan assets			**(1.1)**	(2.1)
Net amortization and deferral			**0.1**	(0.1)
Sub-total	**0.7**	0.7	**0.8**	0.8
Curtailment and settlement loss		2.7		
Net periodic benefit cost	**$ 0.7**	$ 3.4	**$ 0.8**	$ 0.8

Contributions

We generally fund our U.S. non-qualified defined benefit retirement plans when benefit payments are incurred. Under the provisions of these non-qualified plans, we expect to contribute $0.3 million in 2009 to cover unfunded benefits. We contributed $0.6 million to our U.S. non-qualified defined benefit retirement plans during the 2008 fiscal year. Accrued benefit costs for the U.S. non-qualified defined benefit retirement plans as of March 31, 2009 were $17.6 million, of which $0.3 million is included within accrued liabilities and $17.3 million is included within other non-current liabilities. Accrued benefit costs for the U.S. qualified and non-

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qualified defined benefit retirement plans as of December 31, 2008 were $17.7 million, of which $1.0 million is included within current accrued liabilities and $16.7 million is included within other non-current liabilities.

We contributed $1.0 million and $0.8 million to our European defined benefit retirement plans in the first quarters of 2009 and 2008, respectively. Meeting governing requirements, we plan to contribute approximately $4.3 million during 2009 to our European plans. We contributed $4.8 million to our European plans during the 2008 fiscal year. Accrued benefit costs for the European defined benefit retirement plans as of March 31, 2009 were $24.4 million, of which $2.9 million is included within accrued liabilities and $21.5 million is included within other non-current liabilities. Accrued benefit costs for the European defined benefit retirement plans as of December 31, 2008 were $23.2 million of which $ 1.1 million was included within current liabilities and $22.1 million was included within other non-current liabilities.

We contributed $6.7 million to our U.S. qualified and non-qualified defined benefit retirement plans during the first quarter of 2008. Of the total contributed during 2008, $6.4 million was for final settlement of the U.S. qualified plan s remaining benefit obligations, bringing the total contribution for final settlement to $9.7 million. We recorded a pre-tax loss of $2.7 million during the first quarter of 2008 on the final settlement, bringing the total U.S. qualified plan settlement costs to $12.1 million.

Postretirement Health Care and Life Insurance Benefit Plans

Net periodic benefit costs of our postretirement health care and life insurance benefit plans were $0.1 million, consisting of interest costs for the first quarter of 2009. In connection with our postretirement plans, we contributed $0.2 million during each of the first quarters of 2009 and 2008. We periodically fund our postretirement plans to pay covered expenses as they are incurred. Under the provisions of these post retirement plans, we expect to contribute approximately $1.1 million in 2009 to cover unfunded benefits. We contributed $0.8 million to our postretirement plans during the 2008 fiscal year. Accrued benefit costs for the postretirement plans as of March 31, 2009 were $10.9 million, of which $1.1 million is included within accrued liabilities and $9.8 million is included within other non-current liabilities. Accrued benefit costs for the postretirement plans as of December 31, 2008 were $11.3 million, of which $1.3 million were included with current liabilities and $10.0 were included in other non-current liabilities.

Note 4 - Business Consolidation and Restructuring Programs

Reserves associated with the remaining restructuring programs include certain expected severance payments associated with prior reorganizations. Costs associated with the closure of our Livermore facility are for remediation and preparation of the property for sale, which are expensed as incurred. The aggregate business consolidation and restructuring liabilities as of March 31, 2009 and December 31, 2008, consisted of the following:

(In millions)	Employee Severance	Facility & Equipment	Total
Balance as of December 31, 2008	$ 2.0	$ 0.9	$ 2.9
Business consolidation and restructuring expenses			
Cash expenditures	(0.2)	(0.1)	(0.3)
Currency translation adjustments	(0.1)		(0.1)

Balance as of March 31, 2009	**$ 1.7**	**$ 0.8**	**$ 2.5**

Note 5 - Notes Payable and Capital Lease Obligations

(In millions)	**March 31, 2009**	**December 31, 2008**
Line of credit	**$ 4.6**	$
Senior secured credit facility - term B loan due 2012	**87.2**	87.4
Senior secured credit facility - term C loan due 2012	**79.1**	79.3
6.75% senior subordinated notes due 2015	**225.0**	225.0
Total notes payable	**395.9**	391.7
Capital lease obligations	**2.7**	2.9
Total notes payable and capital lease obligations	**$ 398.6**	$ 394.6
Notes payable and current maturities of long-term liabilities	**$ 6.6**	$ 2.1
Long-term notes payable and capital lease obligations, less current maturities	**392.0**	392.5
Total notes payable and capital lease obligations	**$ 398.6**	$ 394.6

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Senior Secured Credit Facility

On May 30, 2008, Hexcel Corporation and its lenders entered into the second amendment to its Senior Secured Credit Facility pursuant to which Hexcel borrowed $80.0 million of additional term loans, designated as term C loans. The net proceeds were used to pay down the revolving loan balance under the credit facility to restore availability under the revolver. All other terms of the credit facility, including the collateral package, subsidiary guarantees and financial and other covenants, remain unchanged.

The term C loans under the facility mature on April 1, 2012, one month after maturity of the existing terms loans under the credit facility. Principal payments on the new term loans are due quarterly in similar proportion to the existing term loans, with substantially all of the principal due in the second half of 2011 and the first half of 2012. Any voluntary or mandatory prepayments of term loans by Hexcel will be applied pro rata among the previously existing term loans and the new term loans. The interest rate for the new term loans is based on LIBOR plus a margin, and was determined based on current market pricing. In accordance with the terms of the credit facility regarding the borrowing of additional loans, the interest rate margin on the existing term loans was increased by 37.5 basis points, a level slightly below that of the new term loans.

Term loan B borrowings under the Senior Secured Credit Facility bear interest at a floating rate based on the agent s defined prime rate plus a margin that can vary from 0.875% to 1.125% or LIBOR plus a margin that can vary from 1.875% to 2.125%. Term loan C borrowings under the Senior Secured Credit Facility bear interest at a floating rate based on the agent s defined prime rate plus a margin that can vary from 1.25% to 1.50% or LIBOR plus a margin that can vary from 2.25% to 2.50%. Revolving loan borrowings under the Senior Secured Credit Facility bear interest at a floating rate based on either the agent s defined prime rate plus a margin that can vary from 0.25% to 1.00%, or LIBOR plus a margin that can vary from 1.25% to 2.00%. The margin in effect for a borrowing at any given time depends on our consolidated leverage ratio. The weighted average interest rate for the actual borrowings on the Senior Secured Credit Facility was 3.97% for the quarter ended March 31, 2009. Borrowings made under the LIBOR option during the quarter ended March 31, 2009 were made at interest rates ranging from 1.9375% to 3.9375%.

In accordance with the terms of the Senior Secured Credit Facility, we are required to maintain a minimum interest coverage ratio of 4.00 (based on the ratio of EBITDA, as defined in the credit agreement, to interest expense) and may not exceed a maximum leverage ratio of 3.00 (based on the ratio of total debt to EBITDA) throughout the term of the Senior Secured Credit Facility. The Senior Secured Credit Facility also contains limitations on, among other things, incurring debt, granting liens, making investments, making restricted payments (including dividends), making capital expenditures, entering into transactions with affiliates and prepaying subordinated debt. In addition, the Senior Secured Credit Facility contains other terms and conditions such as customary representations and warranties, additional covenants and customary events of default. As of March 31, 2009, we were in compliance with all debt covenants.

The Senior Secured Credit Facility permits us to issue letters of credit up to an aggregate amount of $40.0 million. Any outstanding letters of credit reduce the amount available for borrowing under the revolving loan. As of March 31, 2009, we had issued letters of credit totaling $13.2 million under the Senior Secured Credit Facility. The Company had no letters of credit outstanding outside the Senior Secured Credit Facility as of March 31, 2009. Total undrawn availability under the Senior Secured Credit Facility as of March 31, 2009 was $111.8 million.

6.75% Senior Subordinated Notes, due 2015

The senior subordinated notes are unsecured senior subordinated obligations of Hexcel Corporation. Interest accrues at the rate of 6.75% per annum and is payable semi-annually in arrears on February 1 and August 1, beginning on August 1, 2005. The senior subordinated notes mature on February 1, 2015. We may not redeem the senior subordinated notes prior to February 1, 2010. We will have the option to redeem all or a portion of the senior subordinated notes at any time during the one-year period beginning February 1, 2010 at 103.375% of principal plus accrued and unpaid interest. This percentage decreases to 102.25% for the one-year period beginning February 1, 2011, to 101.125% for the one-year period beginning February 1, 2012 and to 100.0% any time on or after February 1, 2013. In the event of a change of control (as defined in the indenture), we are generally required to make an offer to all note holders to purchase all outstanding senior subordinated notes at 101% of the principal amount plus accrued and unpaid interest.

The indenture contains various customary covenants including, but not limited to, restrictions on incurring debt, making restricted payments (including dividends), the use of proceeds from certain asset dispositions, entering into transactions with affiliates, and merging or selling all or substantially all of our assets. The indenture also contains many other customary terms and conditions, including customary events of default, some of which are subject to grace and notice periods.

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Note 6 - Derivative Financial Instruments

Cross-Currency Interest Rate Swap Agreement

In September 2006, we entered into a cross-currency interest rate swap agreement. It has been designated as a net investment hedge per SFAS 133 of our investment in Hexcel France SA. To the extent it is effective, gains and losses are recorded as an offset in the cumulative translation account, the same account in which translation gains and losses on the investment in Hexcel France SA are recorded. All other changes, including any difference in current interest, are excluded from the assessment of effectiveness and are thereby included as a component of interest expense. By excluding the interest rate component of risk in this instrument, and recognizing it in current period earnings, we have diversified our floating rate interest rate exposure to include Euro interest rates which provide a better matching with the underlying currency of operating cash flows. The impact to interest expense for the quarter ended March 31, 2009 was a net reduction of $0.5 million compared to a net credit to interest expense of $1.0 million for the quarter ended March 31, 2008, which also included a credit adjustment for FAS 157 adoption of $1.3 million. This agreement has a notional value of $63.4 million, a term of five years, and is scheduled to mature on September 20, 2011. We receive interest in U.S. dollars quarterly and pay interest in Euros on the same day. U.S. interest is based on the three month LIBOR rate. Euro interest is based on the three month EURIBOR. The fair value of the swap at March 31, 2009 and December 31, 2008 was a liability of $3.5 million and $7.3 million, respectively. The fair value was estimated under the provisions of FAS 157. There were no credit contingency features in this derivative.

Foreign Currency Forward Exchange Contracts

A number of our European subsidiaries are exposed to the impact of exchange rate volatility between the U.S. dollar and the subsidiaries functional currencies, being either the Euro or the British Pound Sterling. We entered into contracts to exchange U.S. dollars for Euros and British Pound Sterling through 2010. The aggregate notional amount of these contracts was $171.4 million at March 31, 2009. The purpose of these contracts is to hedge a portion of the forecasted transactions of European subsidiaries under long-term sales contracts with certain customers or, in some cases, to hedge long term supply agreements to purchase raw materials in foreign currencies. These contracts are expected to provide us with a more balanced matching of future cash receipts and expenditures by currency, thereby reducing our exposure to fluctuations in currency exchange rates. These forward contracts are designated as cash flow hedges of forecasted revenues per SFAS 133. The effective portion of the hedge is recorded in OCI. We exclude the forward points from the effectiveness assessment which is recorded in interest expense. For the quarters ended March 31, 2009 and 2008, hedge ineffectiveness was immaterial.

In addition, we enter into foreign exchange forward contracts which are not designated as hedges per SFAS 133. These are used to provide an offset to transactional gains or losses arising from the remeasurement of non-functional monetary assets and liabilities such as accounts receivable. The change in the fair value of the derivatives is recorded in the income statement. There are no credit contingency features in these derivatives.

Fair values of Derivative Instruments

	As of March 31, 2009		
	Balance Sheet Location		**Fair Value**
Asset derivatives designated as hedging instruments under SFAS 133:			
Foreign exchange contracts	Other assets	$	0.9
Asset derivatives not designated as hedging instruments under SFAS 133:			
Foreign exchange contracts	Other current assets		1.6
Total asset derivatives		$	2.5

	As of March 31, 2009		
	Balance Sheet Location		**Fair Value**
Liability derivatives designated as hedging instruments under SFAS 133:			
Interest rate contracts	Other non-current liabilities	$	3.5
Foreign exchange contracts	Other non-current liabilities		12.3
			15.8
Liability derivatives not designated as hedging instruments under SFAS 133:			
Foreign exchange contracts	Other non-current liabilities		0.2
Total liability derivatives		$	16.0

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The effect of derivative instruments on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2009, was as follows:

Derivatives in SFAS 133 Cash Flow Hedging Relationships		**Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)**	**Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**		**Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**		**Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**
Foreign exchange contracts	$	(3.7)	Sales	$	(2.3)	Interest expense	$	0.6
Foreign exchange contracts		(0.4)	Cost of sales		0.1	Interest expense		
Derivatives in SFAS 133 Net Investment Hedging Relationships								
Interest rate		(3.2)				Interest expense		(0.5)
Total	$	(7.3)		$	(2.2)		$	0.1
Derivatives Not Designated as Hedging Instruments under SFAF 133								
Foreign exchange contracts	$			$		Interest expense	$	(0.9)

The change in fair value of our foreign currency forward exchange contracts under hedge designations recorded net of tax within accumulated other comprehensive income for the quarters ended March 31, 2009 and 2008 was as follows:

(In millions)	**Quarter Ended March 31,**			
		2009		**2008**
Unrealized (losses) gains at beginning of period	**$**	**(8.9)**	$	3.2
Losses (gains) reclassified to net sales		**1.2**		(1.1)
(Decrease) increase in fair value		**(1.9)**		2.6
Unrealized (losses) gains at end of period	**$**	**(9.6)**	$	4.7

As of March 31, 2009, unrealized losses recorded in accumulated other comprehensive income, net of tax, total $9.6 million, of which $6.5 million are expected to be reclassified into earnings over the next twelve months as the hedged sales are recorded.

Note 7 Other Expense

During the first quarter of 2008, in connection with the termination of our U.S. Qualified Pension Plan, as described in Note 3, we recorded expense of $2.7 million for the settlement of pension obligations.

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Note 8 Income Taxes

The income tax provision for the quarter ended March 31, 2009 was $11.2, an effective rate of 32.5%. The income tax provision, for the quarter ended March 31, 2008 of $9.6 million included a benefit of $2.5 million from the reinstatement of deferred tax assets previously written off related to a refinement of our calculation of the Federal net operating loss carryforwards limitation under Section 382 of the Internal Revenue Code, which prescribes allowable net operating losses available following a change in ownership in 2003. The effective tax rate for the first quarter of 2008 of 30.6% included the $2.5 million benefit, which reduced the effective rate by 790 basis points.

Note 9 - Net Income per Common Share

(In millions, except per share data)	Quarter Ended March 31, 2009	2008
Basic net income per common share:		
Net income	**$ 23.4**	$ 23.2
Weighted average common shares outstanding	**96.8**	96.1
Basic net income per common share	**$ 0.24**	$ 0.24
Diluted net income per common share:		
Weighted average common shares outstanding Basic	**96.8**	96.1
Plus incremental shares from assumed conversions:		
Restricted stock units	**0.1**	0.3
Stock options	**0.3**	1.3
Weighted average common shares outstanding Dilutive	**97.2**	97.7
Diluted net income per common share	**$ 0.24**	$ 0.24

Total shares underlying stock options of 3.6 million were excluded from the computation of diluted net income per share for the quarter ended March 31, 2009, as they were anti-dilutive.

Note 10 - Comprehensive Income

Comprehensive income represents net income and other gains and losses affecting stockholders equity that are not reflected in the condensed consolidated statements of operations. The components of comprehensive income for the quarters ended March 31, 2009 and 2008 were as follows:

(In millions)	Quarter Ended March 31, 2009	2008
Net income	**$ 23.4**	$ 23.2

Currency translation adjustments	**(10.1)**	9.2
Change in pension and other postretirement obligations	**0.3**	1.9
Net unrealized gains (losses) on financial instruments	**(1.4)**	1.5
Comprehensive income	**$ 12.2**	$ 35.8

Note 11 Investments in Affiliated Companies

We have an equity ownership investment in an Asian joint venture. In connection therewith, we have considered the accounting and disclosure requirements of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*, and believe that this investment would be considered a variable interest entity. However, we also believe that we are not the primary beneficiary of such entity, and therefore, are not required to consolidate this entity.

Asian Composites Manufacturing Sdn. Bhd.

In 1999, we formed a joint venture, Asian Composites Manufacturing Sdn. Bhd. (Asian Composites), with Boeing Worldwide Operations Limited, Sime Link Sdn. Bhd., and Malaysia Helicopter Services Bhd. (now known as Naluri Berhad), to manufacture composite parts for secondary structures for commercial aircraft. Our ownership interest in this joint venture, which is located in Alor Setar, Malaysia, is 33.33%.

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BHA Aero Composite Parts Co., Ltd.

The Company s former joint venture, BHA Aero Composite Parts Co., Ltd. (BHA), is located in Tianjin, China, and manufactures composite parts for secondary structures and interior applications for commercial aircraft. On July 18, 2008 we sold all of our 40.48% interest in BHA.

Note 12 Fair Value Measurements

Effective January 1, 2008, we adopted the Financial Accounting Standards Board (FASB) Statement No. 157, Fair Value Measurements (FAS 157), for financial assets and liabilities. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The statement indicates, among other things, that a fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. As noted in Note 1 above, the Company adopted the provisions of FAS 157 with respect to its non-financial assets and liabilities during the first quarter of fiscal 2009. However, there were no non-financial assets or liabilities requiring initial measurement or subsequent remeasurement during the first quarter of 2009.

In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a hierarchy for observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

For derivative assets and liabilities that utilize Level 2 inputs we prepare estimates of future cash flows of our derivatives, which are discounted to a net present value. The estimated cash flows and the discount factors used in the valuation model are based on observable inputs, and incorporate non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of Hexcel when the derivative is in a net liability position). Below is a summary of valuation techniques for all Level 2 financial assets and

liabilities:

- Cross-Currency interest rate swap derivative liabilities valued using LIBOR and EURIBOR yield curves at the reporting date. Counterparties to these contracts are highly rated financial institutions none of which experienced any significant downgrades in the three months ended March 31, 2009 that would reduce the receivable amount owed, if any, to the Company.

- Foreign exchange derivative assets and liabilities valued using quoted forward foreign exchange prices at the reporting date. Counterparties to these contracts are highly rated financial institutions none of which experienced any significant downgrades in the three months ended March 31, 2009 that would reduce the receivable amount owed, if any, to the Company.

- Money market funds considered available-for-sale, and classified as cash equivalents.

The following table presents assets and liabilities measured at fair value at March 31, 2009:

(In millions)	**March 31,**	**Fair Value Measurements at March 31, 2009**		
Description	**2009**	**Level 1**	**Level 2**	**Level 3**
Money market funds	**$ 21.0**	**$**	**$ 21.0**	**$**
Foreign currency exchange contracts	**2.5**		**2.5**	