HCA Healthcare, Inc.
Form PRE 14A
March 05, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

HCA Healthcare, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

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

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held April 26, 2019

Dear Stockholder:

On Friday, April 26, 2019, HCA Healthcare, Inc. will hold its annual meeting of stockholders at its corporate headquarters located at One Park Plaza, Nashville, Tennessee 37203. The meeting will begin at 2:00 p.m. (CDT), and is being held for the following purposes:

1. To elect eleven nominees for director of the Company, nominated by the Board of Directors, with each director to serve until the 2020 annual meeting of the stockholders of the Company or until such director s respective successor is duly elected and qualified;

2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019;

3. To approve, in an advisory (non-binding) vote, the compensation of the Company s named executive officers as described in the accompanying proxy statement (say-on-pay);

4. To approve amendments to the Company s amended and restated certificate of incorporation to eliminate supermajority voting requirements; and

5. To transact such other business as may properly come before the meeting or any postponement or adjournment of the meeting.

Only stockholders that owned our common stock at the close of business on March 7, 2019 are entitled to notice of and may vote at this meeting. A list of our stockholders of record will be available at our corporate headquarters located at One Park Plaza, Nashville, Tennessee 37203, during ordinary business hours, for 10 days prior to the annual meeting.

References to HCA, HCA Healthcare, the Company, we, us, or our in this notice and the accompanying prox statement refer to HCA Healthcare, Inc. and its applicable affiliates unless otherwise indicated.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, TO ENSURE THE PRESENCE OF A QUORUM, PLEASE VOTE OVER THE INTERNET OR BY TELEPHONE AS INSTRUCTED IN THESE MATERIALS OR COMPLETE, DATE, AND SIGN A PROXY CARD AS PROMPTLY AS POSSIBLE. IF YOU ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED.

By Order of the Board of Directors,

John M. Franck II

Vice President Legal and Corporate Secretary

Nashville, Tennessee

March , 2019

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Proxy Statement for Annual Meeting of Stockholders

to be held on April 26, 2019

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE

STOCKHOLDER MEETING TO BE HELD ON FRIDAY, APRIL 26, 2019

The Company s Proxy Statement and 2018 Annual Report to Stockholders are available on our website at www.hcahealthcare.com. Additionally, and in accordance with Securities and Exchange Commission Rules, you may access our proxy materials, including the Company s Proxy Statement, form of Proxy Card and 2018 Annual Report to Stockholders, at https://materials.proxyvote.com/40412C.

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QUESTIONS AND ANSWERS

1. Q: WHEN WAS THIS PROXY STATEMENT FIRST MAILED OR MADE AVAILABLE TO STOCKHOLDERS?

A: This proxy statement was first mailed or made available to stockholders on or about March , 2019. Our 2018 Annual Report to Stockholders is being mailed or made available with this proxy statement. The annual report is not part of the proxy solicitation materials.

2. Q: WHY DID I RECEIVE A ONE-PAGE NOTICE IN THE MAIL REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS INSTEAD OF A FULL SET OF PROXY MATERIALS?

A: Pursuant to rules adopted by the Securities and Exchange Commission (SEC), the Company has elected to provide access to our proxy materials and annual report over the Internet. Accordingly, we are sending to our stockholders of record and beneficial owners a notice of Internet availability of the proxy materials (Internet Notice) instead of sending a paper copy of the proxy materials and annual report. All stockholders receiving the notice will have the ability to access the proxy materials and annual report on a website referenced in the notice or to request a printed set of the proxy materials and annual report. Instructions on how to access the proxy materials and annual report over the Internet or to request a printed copy may be found in the notice and in this proxy statement. In addition, the notice contains instructions on how you may request to receive our proxy materials and annual report in printed form by mail or electronically on an ongoing basis.

3. Q: WHAT IS THE PURPOSE OF THE ANNUAL MEETING?

A: At the annual meeting, stockholders will act upon the following matters outlined in the notice of meeting on the cover page of this proxy statement: the election of each of the directors nominated by the Board of Directors; the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019; an advisory resolution to approve our executive compensation as described in this proxy statement (say-on-pay); and the approval of amendments to the Company s amended and restated certificate of incorporation to eliminate supermajority voting requirements. In addition, following the formal business of the meeting, our management team will be available to respond to questions from our stockholders.

4. Q: WHO MAY ATTEND THE ANNUAL MEETING?

A: Stockholders of record as of the close of business on March 7, 2019, or their duly appointed proxies, may attend the meeting. Street name holders (those whose shares are held through a broker or other nominee) should bring a copy of a brokerage statement reflecting their ownership of our common stock as of the record date. Space limitations may make it necessary to limit attendance to stockholders and valid picture identification may be required. Cameras, recording devices, and other electronic devices are not permitted at the meeting. The Company may implement additional procedures to ensure the comfort and safety of meeting attendees. Registration will begin at 1:00 p.m. (CDT), and the annual meeting will commence at 2:00 p.m. (CDT).

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5. Q: WHO IS ENTITLED TO VOTE AT THE ANNUAL MEETING?

A: Only stockholders of record as of the close of business on March 7, 2019 are entitled to receive notice of and participate in the annual meeting. As of the record date, there were shares of our common stock outstanding. Every stockholder is entitled to one vote for each share held as of the record date. Cumulative voting is not permitted with respect to the election of directors or any other matter to be considered at the annual meeting.

6. Q: WHO IS SOLICITING MY VOTE?

A: The Company s Board of Directors is sending you this proxy statement in connection with the solicitation of proxies for use at the 2019 annual meeting. The Company pays the cost of soliciting proxies. Proxies may be solicited in person or by telephone, facsimile, electronic mail, or other electronic medium by certain of our directors, officers, and employees, without additional compensation. In addition, we have retained Georgeson LLC to assist in the solicitation of proxies for a fee of approximately $15,000 plus associated costs and expenses. Forms of proxies and proxy materials may also be distributed through brokers, custodians, and other like parties to the beneficial owners of shares of our common stock, in which case we will reimburse these parties for their reasonable out-of-pocket expenses.

7. Q: ON WHAT MAY I VOTE?

A: You may vote on the election of directors nominated to serve on our Board of Directors; the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019; the advisory say-on-pay resolution to approve our executive compensation; and the approval of amendments to the Company s amended and restated certificate of incorporation to eliminate supermajority voting requirements.

8. Q: HOW DOES THE BOARD RECOMMEND I VOTE ON THE PROPOSALS?

A: The Board unanimously recommends that you vote as follows:

- **FOR** each of the director nominees;
- **FOR** the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2019;
- **FOR** the advisory say-on-pay resolution to approve our executive compensation; and
- **FOR** the approval of amendments to the Company s amended and restated certificate of incorporation to eliminate supermajority voting requirements.

9. Q: HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?

A: It is not expected that any matter not referred to herein will be presented for action at the annual meeting. If any other matters are properly brought before the annual meeting, including, without limitation, a motion to adjourn the annual meeting to another time and/or place for the purpose of, among other matters, permitting dissemination of information regarding material developments relating to any of the proposals or soliciting additional proxies in favor of the approval of any of the proposals, the persons named on the accompanying Proxy Card will vote the shares represented by such proxy upon such matters in their discretion. Should the annual meeting be reconvened, all proxies will be voted in the same manner as such proxies would have been voted when the annual meeting was originally convened, except for the proxies effectively revoked or withdrawn prior to the time proxies are voted at such reconvened meeting.

10. Q: HOW DO I VOTE IF MY SHARES ARE REGISTERED DIRECTLY IN MY NAME?

A: You may vote in person at the annual meeting or authorize the persons named as proxies on the Proxy Card to vote your shares by returning the Proxy Card by mail, through the Internet, or by telephone. **Although we offer four different voting methods, we encourage you to vote through the Internet as we believe it is the most cost-effective method for the Company.** We also recommend that you vote as soon as possible, even if you are planning to attend the annual meeting, so that the vote count will not be delayed. Both the Internet and the telephone provide convenient, cost-effective alternatives to returning your Proxy Card by mail. If you choose to vote your shares through the Internet or by telephone, there is no need for you to mail back your Proxy Card.

To Vote Over the Internet:

Log on to the Internet and go to the website www.proxyvote.com (24 hours a day, 7 days a week). Have your Proxy Card available when you access the website. You will need the control number from your Proxy Card to vote.

To Vote By Telephone:

On a touch-tone telephone, call 1-800-690-6903 (24 hours a day, 7 days a week). Have your Proxy Card available when you make the call. You will need the control number from your Proxy Card to vote.

To Vote By Proxy Card:

Complete and sign the Proxy Card and return it to the address indicated on the Proxy Card. If you received an Internet Notice instead of a paper copy of the proxy materials and annual report, you should follow the voting instructions set forth in the notice.

You have the right to revoke your proxy at any time before the meeting by: (i) notifying our Corporate Secretary in writing at One Park Plaza, Nashville, Tennessee 37203; (ii) voting in person; (iii) submitting a later-dated Proxy Card; (iv) submitting another vote by telephone or over the Internet; or (v) if applicable, submitting new voting instructions to your broker or nominee. If you have questions about how to vote or revoke your proxy, you should contact our Corporate Secretary at One Park Plaza, Nashville, Tennessee 37203. For shares held in street name, refer to Question 11.

11. Q: HOW DO I VOTE MY SHARES IF THEY ARE HELD IN THE NAME OF MY BROKER (STREET NAME)?

A: If your shares are held by your broker or other nominee, often referred to as held in street name, you will receive a form from your broker or nominee seeking instruction as to how your shares should be voted. You should contact your broker or other nominee with questions about how to provide or revoke your instructions.

12. Q: WHAT IS THE VOTE REQUIRED TO ELECT DIRECTORS?

A: Since Proposal 1 in this proxy statement is in respect of an uncontested director election, Proposal 1 requires the affirmative vote of a majority of the votes cast at the annual meeting to elect a nominee, which means that a nominee will be elected only if the number of shares voted for that nominee exceeds the number of shares voted against that nominee. Accordingly, each nominee receiving a greater number of shares voted for such nominee than against such nominee shall be elected as a director. If an incumbent director does not receive a greater number of shares voted for such director than against such director, then such director must tender his or her resignation to the Board of Directors, which resignation shall be contingent upon acceptance thereof by the Board of Directors. If a nominee who is not an incumbent director does

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not receive a greater number of shares voted for such director than against such director, then such nominee will not be elected to the Board of Directors. In the event there is a contested director election, director nominees must receive affirmative votes from a plurality of the votes cast at the annual meeting to be elected. This means that the nominees receiving the greatest number of affirmative votes of the shares present in person or represented by proxy at the annual meeting and entitled to vote will be elected as directors.

13. Q: WHAT IS THE VOTE REQUIRED TO APPROVE THE OTHER PROPOSALS?

A: ***Ratification of Ernst & Young LLP:*** The ratification of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the year ending December 31, 2019 must receive affirmative votes from the holders of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote to be approved.

Advisory Say-On-Pay Resolution: The advisory say-on-pay resolution to approve our executive compensation must receive affirmative votes from the holders of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote to be approved. Because your vote is advisory, it will not be binding on the Company, the Board of Directors or our Compensation Committee. Although non-binding, our Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

Amendments to the Company s Amended and Restated Certificate of Incorporation: The proposal to approve amendments to the Company s Amended and Restated Certificate of Incorporation to eliminate supermajority voting requirements must receive affirmative votes from the holders of at least 75% of the voting power of all outstanding shares of the Company entitled to vote generally in the election of directors to be approved.

14. Q: WHAT CONSTITUTES A QUORUM ?

A: The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum. There must be a quorum for business to be conducted at the meeting. Failure of a quorum to be represented at the annual meeting will necessitate an adjournment or postponement and will subject the Company to additional expense. Abstentions and broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum.

15. Q: WHAT IF I ABSTAIN FROM VOTING?

A: If you attend the meeting or send in your signed Proxy Card or vote by telephone or over the Internet, but abstain from voting on any proposal, you will still be counted for purposes of determining whether a quorum exists. If you abstain from voting on Proposal 1, your abstention will have no effect on the outcome. If you abstain from voting on Proposals 2, 3 or 4, your abstention will have the same legal effect as a vote against these proposals.

16. Q: WILL MY SHARES BE VOTED IF I DO NOT SIGN AND RETURN MY PROXY CARD OR VOTE BY TELEPHONE OR OVER THE INTERNET?

A: If you are a registered stockholder and you do not sign and return your Proxy Card or vote by telephone or over the Internet, your shares will not be voted at the annual meeting. Questions concerning stock certificates and registered stockholders may be directed to EQ Shareowner Services at 1110 Centre Pointe Curve, Suite 101, Mendota Heights, Minnesota 55120-4100 or by telephone at 1-800-468-9716 (domestic) or 1-651-450-4064 (outside the U.S.). If your shares are held in street name and you do not issue instructions to your broker, your broker may vote your shares at its discretion on routine matters, but may not vote your shares on non-routine matters. Under New York Stock Exchange (NYSE) rules, Proposal 2 relating to the ratification of the appointment of the independent registered public accounting firm is deemed to be a routine matter and brokers and nominees may exercise their voting discretion without receiving instructions from the beneficial owner of the shares. Proposals 1, 3 and 4 are non-routine matters and, therefore, may only be voted in accordance with instructions received from the beneficial owner of the shares.

17. Q: WHAT IS A BROKER NON-VOTE ?

A: Under NYSE rules, brokers and nominees may exercise their voting discretion without receiving instructions from the beneficial owner of the shares on proposals that are deemed to be routine matters. If a proposal is a non-routine matter, a broker or nominee may not vote the shares on the proposal without receiving instructions from the beneficial owner of the shares. If a broker turns in a Proxy Card expressly stating that the broker is not voting on a non-routine matter, such action is referred to as a broker non-vote.

18. Q: WHAT IS THE EFFECT OF A BROKER NON-VOTE?

A: Broker non-votes will be counted for the purpose of determining the presence of a quorum but will not be counted for purposes of determining the outcome of the vote on any proposal, other than Proposal 2.

19. Q: WHO WILL COUNT THE VOTES?

A: Broadridge Financial Solutions, Inc. has been engaged as our independent inspector of election to tabulate stockholder votes for the annual meeting.

20. Q: CAN I PARTICIPATE IF I AM UNABLE TO ATTEND?

A: If you are unable to attend the meeting in person, we encourage you to send in your Proxy Card or to vote by telephone or over the Internet. We will provide a live webcast of the annual meeting accessible at https://event.webcasts.com/starthere.jsp?ei=1234705&tp_key=d97cba9a0b. The webcast will be one-way audio only, and webcast attendees will not be able to participate in or vote at the meeting via the webcast.

21. Q: WHERE CAN I FIND THE VOTING RESULTS OF THE ANNUAL MEETING?

A: We intend to announce preliminary voting results at the annual meeting and publish final results in a Current Report on Form 8-K that will be filed with the SEC following the annual meeting. All reports we file with the SEC are publicly available when filed. Please refer to Question 24 for additional information.

22. Q: WHEN ARE STOCKHOLDER PROPOSALS DUE IN ORDER TO BE INCLUDED IN OUR PROXY MATERIALS FOR THE NEXT ANNUAL MEETING?

A: Any stockholder proposal must be submitted in writing to our Corporate Secretary at HCA Healthcare, Inc., One Park Plaza, Nashville, Tennessee 37203, prior to the close of business on

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November , 2019, to be considered timely for inclusion in next year s proxy statement and form of proxy. Such proposal must also comply with SEC regulations, including Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials.

We have also adopted a proxy access right that permits a stockholder, or a group of up to 20 stockholders, owning continuously for at least three years shares of our stock representing an aggregate of at least 3% of the voting power entitled to vote in the election of directors, to nominate and include in our proxy materials director nominees, provided that the stockholder(s) and the nominee(s) satisfy the requirements in our bylaws. Under our bylaws, to be considered timely, compliant notice of proxy access director nominations for next year s proxy statement and form of proxy must be submitted to the Corporate Secretary at the address specified above no earlier than October , 2019 and no later than November , 2019; provided, however, that if (A) the annual meeting is not within 30 days before or after the anniversary date of this year s meeting, or (B) no annual meeting is held this year, to be timely the stockholder notice must be received no later than 90 days prior to such annual meeting or, if later, the tenth day after the day on which notice of the date of the meeting was mailed or public disclosure of the date of such meeting is first made, whichever occurs first. The foregoing is a summary of the requirements for stockholders to nominate persons for election to our Board of Directors, which requirements are set out fully in our bylaws, and the foregoing description is qualified by reference to the full text of our bylaws. You should consult our bylaws for more detailed information regarding the processes by which stockholders may nominate directors, including the specific requirements regarding the content of the written notices and other related requirements. Our bylaws are posted on the Corporate Governance portion of our website located at www.hcahealthcare.com.

23. Q: WHEN ARE OTHER STOCKHOLDER PROPOSALS DUE?

A: Our bylaws contain an advance notice provision that requires stockholders to deliver to us notice of a proposal to be considered at an annual meeting not less than 90 nor more than 120 days before the date of the first anniversary of the prior year s annual meeting. Such proposals are also subject to informational and other requirements set forth in our bylaws, a copy of which is available under the Corporate Governance portion of our website, www.hcahealthcare.com.

24. Q: HOW CAN I OBTAIN ADDITIONAL INFORMATION ABOUT THE COMPANY?

A: **We will provide copies of this proxy statement and our 2018 Annual Report to Stockholders, including our Annual Report on Form 10-K for the year ended December 31, 2018, without charge to any stockholder who makes a written request to our Corporate Secretary at HCA Healthcare, Inc., One Park Plaza, Nashville, Tennessee 37203. Our Annual Report on Form 10-K and other SEC filings may also be accessed at www.sec.gov or on the Investor Relations section of the Company s website at www.hcahealthcare.com.** Our website address is provided as an inactive textual reference only. The information provided on or accessible through our website is not part of this proxy statement and is not incorporated herein by this or any other reference to our website provided in this proxy statement.

25. Q: HOW MANY COPIES SHOULD I RECEIVE IF I SHARE AN ADDRESS WITH ANOTHER STOCKHOLDER?

A: The SEC has adopted rules that permit companies and intermediaries, such as brokers, to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single Internet Notice or proxy statement addressed to those stockholders. This process, commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. The Company and some brokers may be householding our Internet Notice or proxy materials by delivering a single Internet Notice or proxy statement and annual report to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker, or us, that they, or we, will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If at any time you no longer wish to participate in householding and would prefer to receive a separate Internet Notice or proxy statement and annual report, or if you are receiving multiple copies of the Internet Notice or proxy statement and annual report and wish to receive only one, please notify your broker if your shares are held in a brokerage account or us if you are a stockholder of record. You can notify us by sending a written request to our Corporate Secretary at HCA Healthcare, Inc., One Park Plaza, Nashville, Tennessee 37203, or by calling our Corporate Secretary at (615) 344-9551. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the annual report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered.

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COMPANY SUMMARY

HCA Healthcare, Inc. is one of the leading health care services companies in the United States. As of February 1, 2019, we operated 185 hospitals in 20 states and England, comprised of 181 general, acute care hospitals; three psychiatric hospitals; and one rehabilitation hospital. We also operate numerous outpatient health care facilities, which include freestanding ambulatory surgery centers, freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic and imaging centers, physician practices and various other facilities.

HCA Healthcare Hospitals

Our other sites of care

Our common stock is traded on the NYSE (symbol HCA). Through our predecessors, we commenced operations in 1968. The Company was incorporated in Delaware in October 2010. Our principal executive offices are located at One Park Plaza, Nashville, Tennessee 37203, and our telephone number is (615) 344-9551.

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CORPORATE GOVERNANCE

Key Governance Practices:

- Majority of directors are independent
- All members of the Audit and Compliance Committee, Compensation Committee and Nominating and Corporate Governance Committee are independent
- Annual election of all directors
- Majority voting for directors in uncontested elections
- Proxy access right for stockholders of at least 3% of stock for three years
- No dual-class shareholdings (one share, one vote)
- Share ownership guidelines of five times the value of the annual cash retainer within three years for each non-management director

Director Independence. Our Board of Directors currently consists of 13 directors. NYSE listing standards require that a majority of our directors be independent in accordance with the independence requirements set forth in such listing standards. In addition, our Audit and Compliance Committee, Compensation Committee and Nominating and Corporate Governance Committee must be composed solely of independent directors to comply with such listing standards and, in the case of our Audit and Compliance Committee, with SEC rules.

Our Board of Directors affirmatively determines the independence of each director and director nominee in accordance with guidelines it has adopted, which include all elements of independence set forth in the NYSE listing standards as well as certain Board-adopted categorical independence standards. These guidelines are contained in our Corporate Governance Guidelines which are posted on the Corporate Governance portion of our website located at www.hcahealthcare.com. The Board first analyzes whether any director has a relationship covered by the NYSE listing standards that would prohibit an independence finding for Board or committee purposes. Management then provides the Board with relevant known facts and circumstances, and their analysis thereof, of any relationship of a director to HCA or to our management that does not fall within the parameters set forth in the Board s separately adopted categorical independence standards to determine whether or not that relationship is material. The Board may determine that a director who has a relationship that falls outside of the parameters of the categorical independence standards is nonetheless independent (to the extent that the relationship would not constitute a bar to independence under the NYSE listing standards).

Our Board of Directors has affirmatively determined that Meg G. Crofton, Robert J. Dennis, Nancy-Ann DeParle, Charles O. Holliday, Jr., Ann H. Lamont, Geoffrey G. Meyers, Michael W. Michelson, Wayne J. Riley, M.D. and John W. Rowe, M.D. are independent from our management under both the NYSE s listing standards and our additional standards. The Board has also affirmatively determined that Messrs. Holliday, Meyers and Michelson and Dr. Riley, the members of our Audit and Compliance Committee, meet the independence requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act). Any relationships between an independent director and HCA or our management fell within the Board-adopted categorical standards and, accordingly, were not specifically reviewed by our Board.

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On November 17, 2006, a predecessor entity, HCA Inc., was acquired by a private investor group, including affiliates of or funds sponsored by Bain Capital Partners, LLC, Kohlberg Kravis Roberts & Co., BAML Capital Partners (formerly Merrill Lynch Global Private Equity) (each, a Sponsor) and affiliates of HCA founder Dr. Thomas F. Frist, Jr. (the Frist Entities, and together with the Sponsors, the Investors) and by members of management and certain other investors (the Merger). In connection with the Merger, we entered into a stockholders agreement (the Stockholders Agreement) with Hercules Holding II (f/k/a Hercules Holding II, LLC) (Hercules Holding) and the Investors which, among other things, currently provides for certain rights of the Frist Entities to nominate two members of our Board of Directors. See Director Qualifications and Certain Relationships and Related Person Transactions.

Executive Sessions. Our Corporate Governance Guidelines provide that non-management directors shall meet at regularly scheduled executive sessions, which will typically occur at regularly scheduled Board meetings, without any member of management present and must so meet at least annually. In addition, at least annually the independent directors shall meet in separate executive session. Mr. Holliday is currently the non-management and independent presiding director. Effective following the annual meeting, Mr. Frist III will preside over meetings of the non-management directors, and Mr. Holliday will continue to serve as the independent presiding director. Our Corporate Governance Guidelines also provide that the independent and/or non-management directors shall be entitled, acting as a group by vote of a majority of such independent and/or non-management directors, to retain legal counsel, accountants, health care consultants, or other experts, at the Company s expense, to advise the independent and/or non-management directors concerning issues arising in the exercise of their functions and powers.

Criteria for Director Nomination. Our Nominating and Corporate Governance Committee recommends to the Board persons to be nominated to serve as directors of the Company. When determining whether to nominate a current director to stand for re-election as a director, the Nominating and Corporate Governance Committee reviews and considers the performance of such director during the prior year using performance criteria established by the Board. The Nominating and Corporate Governance Committee also considers the requirements of any stockholders agreement in existence which governs the composition requirements of the Company s Board of Directors. In recruiting and evaluating new director candidates, the Nominating and Corporate Governance Committee assesses a candidate s independence, as well as the candidate s background and experience, current board skill needs and diversity. The Company endeavors to have a Board representing diverse experience at policy-making levels in business, education or areas that are relevant to the Company s business. The Nominating and Corporate Governance Committee considers any candidates proposed by any senior executive officer, director or stockholder, consistent with applicable law, the Company s certificate of incorporation and bylaws, the criteria set forth in our Corporate Governance Guidelines and the requirements of any stockholders agreement in existence.

Individual directors and any person nominated to serve as a director should demonstrate high ethical standards and integrity in their personal and professional dealings, be willing to act on and remain accountable for their boardroom decisions, and be in a position to devote an adequate amount of time to the effective performance of their director duties.

In addition, each director should contribute knowledge, experience, or skill in at least one area that is important to the Company. To provide such a contribution to the Company, a director must possess experience in one or more of the following:

Business or management for complex and large consolidated companies or other complex and large institutions;

Accounting or finance for complex and large consolidated companies or other complex and large institutions;

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- Leadership, strategic planning, or crisis response for complex and large consolidated companies or other complex and large institutions;
- The health care industry; and
- Other significant and relevant areas deemed by the Nominating and Corporate Governance Committee to be valuable to the Company.

Each director must also take reasonable steps to keep informed on the complex, rapidly evolving health care environment. Prior to nominating a person to serve as a director, the Nominating and Corporate Governance Committee evaluates the candidate based on the criteria described above. In addition, prior to accepting re-nomination, each director should evaluate himself or herself as to whether he or she satisfies the criteria described above.

Stockholder Nominees. Our bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual or special meeting of stockholders must provide timely notice of their proposal in writing to the Corporate Secretary of the Company. Generally, to be timely, a stockholder s notice must be delivered to, mailed to or received at our principal executive offices, addressed to the Corporate Secretary of the Company, and within the following time periods:

- in the case of an annual meeting, no earlier than 120 days and no later than 90 days prior to the first anniversary of the date of the preceding year s annual meeting; provided, however, that if (A) the annual meeting is advanced by more than 30 days, or delayed by more than 60 days, from the first anniversary of the preceding year s annual meeting, or (B) no annual meeting was held during the preceding year, to be timely the stockholder notice must be received no earlier than 120 days before such annual meeting and no later than the later of 90 days before such annual meeting or the tenth day after the day on which public disclosure of the date of such meeting is first made; and

- in the case of a nomination of a person or persons for election to the Board of Directors at a special meeting of the stockholders called for the purpose of electing directors, no earlier than 120 days before such special meeting and no later than the later of 90 days before such annual or special meeting or the tenth day after the day on which public disclosure of the date of such meeting is first made.

In no event shall an adjournment, postponement or deferral, or public disclosure of an adjournment, postponement or deferral, of a meeting of the stockholders commence a new time period (or extend any time period) for the giving of the stockholder notice.

The Company has also adopted a proxy access right that permits a stockholder, or a group of up to 20 stockholders, owning continuously for at least three years shares of our stock representing an aggregate of at least 3% of the voting power entitled to vote in the election of directors, to nominate and include in our proxy materials director nominees, provided that the stockholder(s) and the nominee(s) satisfy the requirements in our bylaws. The number of potential proxy access nominees nominated by all eligible stockholders shall not exceed the greater of (A) two or (B) 20% of the directors then in office. Under our bylaws, to be considered timely, compliant notice of proxy access director nominations must be submitted to the Corporate Secretary at the address specified above no earlier than 150 days and no later than 120 days prior to the first anniversary of the date the Company mailed its proxy statement for the preceding year s annual meeting; provided, however, that if (A) the annual meeting is not within 30 days before or after the anniversary date of the preceding year s annual meeting, or (B) no annual meeting was held during the preceding year, to be timely the stockholder notice must be received no later than 90 days prior to such annual meeting or, if later, the tenth day after the day on which notice of the date of the meeting was mailed or public disclosure of the date of such meeting is first made, whichever occurs first.

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The foregoing is a summary of the requirements for stockholders to nominate persons for election to our Board of Directors, which requirements are set out fully in our bylaws, and the foregoing description is qualified by reference to the full text of our bylaws. You should consult our bylaws for more detailed information regarding the processes by which stockholders may nominate directors, including the specific requirements regarding the content of the written notices and other related requirements. Our bylaws are posted on the Corporate Governance portion of our website located at www.hcahealthcare.com.

Board Leadership Structure. The Board of Directors regularly considers the appropriate leadership structure for the Company and has concluded that the Company and its stockholders are best served by the Board of Directors retaining discretion to determine whether the same individual should serve as both Chief Executive Officer and Chairman of the Board of Directors, or whether the roles should be separated. The Board of Directors believes that it is important to retain the flexibility to make this determination at any given point in time based on what it believes will provide the best leadership structure for the Company. Accordingly, at different points in the Company s history, the Chief Executive Officer and Chairman of the Board of Directors roles have been held by the same person. At other times, the roles have been held by different individuals. In each instance, the decision on whether to combine or se;padding:0in 0in 0in 0in;width:12.0%;">

808.1

Gross margin

52.1

71.1

192.2

227.3

Selling, general and administrative expenses	
	25.8
	26.9
	80.4
	88.9
Research and technology expenses	
	8.4
	7.6
	22.6
	24.1
Business consolidation and restructuring expenses	

0.7

2.5

Other operating (income) expenses

(1.7

)

10.2

Operating income

19.6

35.9

89.2

101.6

Interest expense, net	**6.9**	4.6	**19.8**	15.5
Income before income taxes and equity in earnings of affiliated companies	**12.7**	31.3	**69.4**	86.1

Provision for income taxes	
	2.5
	11.3
	19.4
	18.8
Income before equity in earnings of affiliated companies	
	10.2
	20.0
	50.0
	67.3
Equity in earnings of affiliated companies	
	0.2
	13.0
	0.6

		15.6
Net income		
$	**10.4**	
$	33.0	
$	**50.6**	
$	82.9	

Basic net income per common share:

$

0.11

$

0.34

$

0.52

$

0.86

Diluted net income per common share:

$

0.11

$ 0.34

$ 0.52

$ 0.85

Weighted average common shares outstanding:

Basic	**96.9**	96.5	**96.9**	96.3
Diluted	**98.1**	97.8	**98.1**	97.8

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) Nine Months Ended September 30, 2009	2008 (See Note 1)
Cash flows from operating activities		
Net income	**$ 50.6**	$ 82.9
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	**34.5**	33.2
Amortization of debt discount and deferred financing costs	**4.0**	1.2
Deferred income taxes	**15.2**	4.3
Business consolidation and restructuring expenses		2.5
Business consolidation and restructuring payments	**(1.5)**	(3.7)
Equity in earnings from affiliated companies	**(0.6)**	(3.9)
Gain on sale of investment in affiliated companies		(11.7)
Stock-based compensation	**6.7**	8.7
Excess tax benefits on stock-based compensation	**0.5**	1.7
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	**38.2**	(19.2)
Decrease (increase) in inventories	**38.8**	(22.9)
(Increase) decrease in prepaid expenses and other current assets	**(11.0)**	2.1
Decrease in accounts payable and accrued liabilities	**(37.4)**	(35.4)
Other net	**2.0**	8.8
Net cash provided by operating activities	**140.0**	48.6
Cash flows from investing activities		
Cash payments for capital expenditures	**(82.1)**	(131.0)
Investment in joint venture	**(6.0)**	
Proceeds from sale of equity investment		22.3
Net cash used for investing activities	**(88.1)**	(108.7)
Cash flows from financing activities		
Borrowings from credit line - China	**3.0**	
Proceeds from New Senior Secured Credit Facility term B loan	**171.5**	
Repayment of previous Senior Secured Credit Facility	**(167.0)**	
Repayment of New Senior Secured Credit Facility term B loan	**(10.9)**	
Issuance costs related to New Senior Secured Credit Facility	**(10.4)**	
Proceeds from senior secured credit facility term C loan		79.4
Capital lease obligations and other debt, net	**0.5**	(0.3)
Activity under stock plans	**(0.5)**	1.4
Net cash (used for) provided by financing activities	**(13.8)**	80.5
Effect of exchange rate changes on cash and cash equivalents	**5.7**	0.2
Net increase in cash and cash equivalents	**43.8**	20.6
Cash and cash equivalents at beginning of period	**50.9**	28.1
Cash and cash equivalents at end of period	**$ 94.7**	$ 48.7
Supplemental data:		
Accrual basis additions to property, plant and equipment	**$ 65.8**	$ 125.8

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 , the Company , we, us, or our mean Hexcel Corporation and subsidiary companies. The accompanying condensed consolidated 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 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 the financial statements and notes thereto included in our 2008 Annual Report on Form 10-K.

Reclassifications and revisions

Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash provided by operating activities for the nine months ended September 30, 2008 was revised to $48.6 million from the $43.4 million previously reported, while cash used for investing activities increased by the same amount. Investing activities now include only cash payments for capital expenditures, whereas previously they included additions to property, plant and equipment on an accrual basis. The adjustment to the cash basis is reflected in the change in accounts payable.

Management will revise the Statements of Cash Flows for comparative periods in future filings to appropriately reflect capital expenditures on a cash basis. For annual periods ended December 31, 2008, 2007 and 2006, cash provided by operating activities will be revised from $98.9 million to $97.5 million, $106.3 million to $100.9 million and $98.3 million to $95.7 million, respectively. Cash provided by operating activities will be revised for the year-to-date periods ended March 31, 2009 and 2008 and June 30, 2009 and 2008 from $3.1 million to $13.6 million, ($14.7) million to ($13.3) million, $69.9 million to $86.2 million and ($5.5) million to $2.1 million, respectively. Cash used in investing activities will also be revised in each year-to-date period in an equal and offsetting amount. Management has concluded that these revisions are immaterial.

New Accounting Pronouncements

In December 2008 the FASB issued new authoritative guidance regarding employers disclosures about postretirement benefit plan assets. This guidance adds 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, employers are required to disclose information about the valuation of plan assets similar to that required under existing fair value guidance. The new guidance is effective for our fiscal year ending December 31, 2009. The principal impact from this new guidance will be expanded disclosures regarding our benefit plan assets.

In June 2009, the FASB issued revised authoritative guidance that amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under previously issued guidance. The revised guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009, which is January 1, 2010 for the Company. The Company does not expect this new guidance to have a material impact on the Company s financial position and results of operations.

In October 2009, the FASB issued new authoritative guidance regarding *Revenue Recognition Multiple Deliverable Revenue Arrangements.* This update provides amendments for separating consideration in multiple deliverable arrangements and removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. This update is effective for the Company beginning January 1, 2011 and can be applied

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prospectively or retrospectively. We are currently evaluating the effect that adoption of this update will have, if any, on the Company s consolidated financial position and results of operations.

Recently adopted accounting pronouncements

In March 2008, the FASB issued revised authoritative guidance concerning disclosures about derivative instruments and hedging activities. The new guidance 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. This also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements and the impact that hedges have on an entity s financial position, financial performance, and cash flows. The Company adopted the new guidance on January 1, 2009 and has expanded the disclosures regarding derivative instruments and hedging activities within Note 5.

In September 2006, the FASB issued new authoritative guidance regarding fair value measurements and the fair value option for financial assets and financial liabilities. This guidance 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 revised authoritative guidance, which provided a one year deferral for fair-value measurements of non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. As of January 1, 2009, the Company adopted the new guidance with respect to its non-financial assets and liabilities that are measured at fair value within the financial statements. See Note 11.

In April 2009, the FASB issued new authoritative guidance requiring interim disclosures about fair value of financial instruments. The new guidance is effective for interim reporting periods ending after June 15, 2009. The Company adopted this guidance in the second quarter of 2009. As a result, we have expanded our disclosures regarding derivative instruments and hedging activities within Note 4.

In May 2009, the FASB issued new authoritative guidance regarding Subsequent Events, which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new guidance became effective in the second quarter of 2009. The Company has performed an evaluation of subsequent events through October 26, 2009, which is the date the financial statements were issued.

In June 2009, the FASB issued new authoritative guidance regarding accounting standards codification that will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Company adopted the new guidance in the third quarter of fiscal 2009. The new guidance did not affect the Company s financial position and results of operations, but did affect the way U.S. GAAP is referenced within the consolidated financial statements and accounting policies.

In August 2009, the FASB issued new authoritative guidance regarding *Measuring Liabilities at Fair Value* . The new guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using prescribed techniques. We adopted the new guidance in the third quarter of 2009 and it did not materially affect the Company s financial position and results of operations.

Note 2 - Inventories, net

(In millions)	September 30, 2009	December 31, 2008
Raw materials	**$ 75.4**	$ 89.2
Work in progress	**37.2**	52.0
Finished goods	**69.2**	77.3
Total inventories, gross	**$ 181.8**	$ 218.5
Inventory allowances	**(23.8)**	(23.2)
Total inventories, net	**$ 158.0**	$ 195.3

Note 3 Retirement and Other Postretirement Benefit Plans

We maintain qualified and non-qualified 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. We completed the settlement of substantially all U.S. qualified defined benefit plan pension obligations as of March 31, 2008 and terminated the plan as of April 1, 2008. Refer to our 2008 Annual Report on Form 10-K for further information regarding these plans.

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Defined Benefit Retirement Plans

Net Periodic Benefit Costs

Net periodic benefit costs of our defined benefit retirement plans for the quarters and nine months ended September 30, 2009 and 2008 were as follows:

(In millions)	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
U.S. Qualified and Non-qualified Defined Benefit Retirement Plans				
Service cost	**$ 0.7**	$ 0.4	**$ 1.1**	$ 1.2
Interest cost	**0.5**	0.2	**0.8**	0.7
Expected return on plan assets				
Net amortization and deferral	**0.1**	0.1	**0.2**	0.1
Sub-total	**1.3**	0.7	**2.1**	2.0
Curtailment and settlement loss				2.7
Net periodic benefit cost	**$ 1.3**	$ 0.7	**$ 2.1**	$ 4.7

	September 30, 2009	December 31, 2008
Amounts recognized on the balance sheet:		
Accrued liabilities	**$ 0.3**	$ 1.0
Other non-current liabilities	**18.4**	16.7
Total accrued benefit	**$ 18.7**	$ 17.7

	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
European Defined Benefit Retirement Plans				
Service cost	**$ 0.6**	$ 1.1	**$ 1.8**	$ 3.2
Interest cost	**1.2**	1.8	**3.6**	5.6
Expected return on plan assets	**(1.1)**	(2.0)	**(3.3)**	(6.2)
Net amortization and deferral	**0.1**	(0.1)	**0.4**	(0.2)
Net periodic benefit cost	**$ 0.8**	$ 0.8	**$ 2.5**	$ 2.4

	September 30, 2009	December 31, 2008
Amounts recognized on the balance sheet:		
Accrued liabilities	**$ 2.5**	$ 1.1
Other non-current liabilities	**24.3**	22.1
Total accrued benefit	**$ 26.8**	$ 23.2

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.

We contributed $1.9 million and $0.4 million to our European defined benefit retirement plans in the third quarters of 2009 and 2008, respectively. Contributions were $4.1 million and $2.6 million for the nine months ended September 30, 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.

We contributed $7.5 million to our U.S. qualified and non-qualified defined benefit retirement plans during the first nine months 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 for the quarters and nine months ended September 30, 2009 and 2008 were as follows:

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(In millions)	Quarter Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Postretirement Health Care and Life Insurance Benefit Plans				
Interest cost	**$ 0.2**	$ 0.1	**$ 0.5**	$ 0.5
Amortization of prior service costs	**(0.1)**		**(0.2)**	(0.2)
Net periodic benefit cost	**$ 0.1**	$ 0.1	**$ 0.3**	$ 0.3

	September 30, 2009	December 31, 2008
Amounts recognized on the balance sheet:		
Accrued liabilities	**$ 1.1**	$ 1.3
Other non-current liabilities	**9.9**	10.0
Total accrued benefit	**$ 11.0**	$ 11.3

Contributions

In connection with our postretirement plans, we contributed $0.2 million and $0.3 million during each of the third quarters of 2009 and 2008, respectively, and $0.5 million and $0.9 million during the nine-month periods ended September 30, 2009 and 2008, respectively. 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.

Note 4 - Notes Payable and Capital Lease Obligations

(In millions)	September 30, 2009	December 31, 2008
Working capital line of credit China	**$ 3.0**	$
Current maturities of capital lease and other obligations	**0.5**	0.4
Current maturities of long-term liabilities		1.7
Notes payable and current maturities of long-term liabilities	**3.5**	2.1
Senior secured credit facility new term B loan due 2014	**160.8**	
Capital lease and other obligations	**3.0**	2.5
Senior secured credit facility term B loan		86.5
Senior secured credit facility term C loan		78.5
6.75% senior subordinated notes due 2015	**225.0**	225.0
Long-term notes payable and capital lease obligations	**388.8**	392.5
Total notes payable and capital lease obligations	**$ 392.3**	$ 394.6

Estimated Fair Values of Notes Payable

The approximate, aggregate fair value of our notes payable as of September 30, 2009 and December 31, 2008 were as follows:

(In millions)		September 30, 2009		December 31, 2008
6.75% senior subordinated notes, due 2015		**$ 213.8**		$ 171.0
Senior secured credit facility	New Term B loan due 2014	**160.8**		
Senior secured credit facility	Term B loan	**$**		$ 76.0
Senior secured credit facility	Term C loan	**$**		$ 73.0

The aggregate fair values of the notes payable were estimated on the basis of quoted market prices; however, trading in these securities is limited and may differ from the amount for which the security could be transferred in an active market.

Senior Secured Credit Facility

On May 21, 2009, Hexcel Corporation entered into a new $300 million senior secured credit facility (Senior Secured Credit Facility), consisting of a $175 million term loan and a $125 million revolving loan. The term loan matures on May 21, 2014 and the revolving loan matures on May 21, 2013. Hexcel has the option of selecting either a LIBOR-based (the current option used) or U.S. domestic-based interest rate for each of the term loan and the revolving loans. Term and revolving loans borrowed as LIBOR-based

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loans bear interest at a rate of LIBOR plus 4%, and term and revolving loans borrowed as U.S. base rate loans bear interest at the base rate plus 3%. There is a LIBOR floor of 2.5%, and a base rate floor of 4%. The margin for revolving loans will decrease by 50 basis points if Hexcel s leverage ratio decreases below 2 to 1, and will decrease an additional 25 basis points if Hexcel s leverage ratio decreases below 1.75 to 1. The term loan was borrowed at closing and once repaid cannot be reborrowed. The term loan is scheduled to be repaid at a rate of approximately $2.2 million per quarter starting in the third quarter of 2009 and increasing to $17.5 million in August 2013 with two final payments of $52.5 million in 2014. Depending upon our leverage ratio, there may be a mandatory repayment each year based on 50% of the cash flow generated for the year, as defined in the agreement. The amounts, if any, will be based on final year-end results. In September 2009, we prepaid $8.8 million of the term loan which represented the next four scheduled quarterly payments and resulted in $0.2 million of accelerated amortization of deferred financing costs.

Proceeds from the term loan, and from an initial borrowing under the revolving loan, were used to repay all amounts, and terminate all commitments, outstanding under Hexcel s former credit agreement and to pay fees and expenses in connection with the refinancing.The Company incurred $10.4 million in issuance costs related to the refinancing of the Senior Secured Credit Facility, which will be expensed over the life of the new facility, and recorded $1.7 million in interest expense related to the write-off of deferred financing costs associated with the previous credit facility. At September 30, 2009, the Company had no borrowings outstanding under the revolving loan.

The Senior Secured Credit Facility contains financial and other covenants, including, but not limited to, restrictions on the incurrence of debt and the granting of liens, as well as the maintenance of an interest coverage ratio and a leverage ratio, and limitations on capital expenditures. A violation of any of these covenants could result in a default under this facility, which would permit the lenders to accelerate the payment of all borrowings and to terminate the facility. In addition, such a default could, under certain circumstances, permit the holders of other outstanding unsecured debt to accelerate the repayment of such obligations.

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 2.75 (based on the ratio of total debt to EBITDA) throughout the term of the Senior Secured Credit Facility. 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 September 30, 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 million. Any outstanding letters of credit reduce the amount available for borrowing under the revolving loan. As of September 30, 2009, we had issued letters of credit totaling $11.8 million under the Senior Secured Credit Facility. As we had no borrowings under the revolving loan at September 30, 2009, total undrawn availability under the Senior Secured Credit Facility as of September 30, 2009 was $113.2 million.

Note 5 - Derivative Financial Instruments

We enter into foreign currency forward contracts to reduce the risks associated with the changes in foreign exchange rates on sales and purchases denominated in other currencies. As described below, we have also entered into a cross-currency interest rate swap agreement. We do not use these or any other contracts for speculative or trading purposes.

Cross-Currency Interest Rate Swap Agreement

In 2006, we entered into a cross-currency interest rate swap agreement. It has been designated as a hedge 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. There was no impact to interest expense in the current quarter. The impact to interest expense for the nine months ended September 30, 2009 was a net increase of $0.1million, compared to a net increase of $1.5 million and $1.4 million for the quarter and nine months ended September 30, 2008, respectively. 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 September 30, 2009 and December 31, 2008 was a liability of $9.6 million and $7.3 million, respectively. 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. We have entered into contracts to exchange U.S.

dollars for Euros and British pounds through 2011. The aggregate notional amount of these contracts was $92.3 million at September 30, 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. 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. The effective portion of the hedges of $1.3 million and $3.5 million is recorded in other comprehensive income (OCI) for the three and nine months ended September 30, 2009. We exclude the forward points from the effectiveness assessment of $0.1 million and $0.2 million for the three and nine months ended September 30, 2009 which is recorded in interest expense. For the quarters and nine months ended September 30, 2009 and 2008, hedge ineffectiveness was immaterial.

In addition, we enter into foreign exchange forward contracts which are not designated as hedges. 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 statement of operations. There are no credit contingency features in these derivatives. The carrying amount of these contracts was $3.5 million in other assets and $13.3 million classified in other liabilities on the Consolidated Balance Sheets. During the three and nine months ended September 30, 2009 we recognized net losses of $0.8 million and $4.8 million, respectively recorded in sales and cost of sales. During the three and nine months ended September 30, 2009 we recognized net gains of $1.3 million and net losses of $6.4 million, respectively, in other comprehensive income. Asset and liability derivatives not designated as hedging instruments were not material.

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 and nine months ended September 30, 2009 and 2008 was as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2009**	**2008**	**2009**	**2008**
Unrealized gains (losses) at beginning of period, net of tax	**$ (2.5)**	$ 3.7	**$ (8.9)**	$ 3.2
(Gains) Losses reclassified to net sales	**1.3**	(0.5)	**3.7**	(2.3)
Increase in fair value	**0.1**	(5.5)	**4.1**	(3.2)
Unrealized losses at end of period, net of tax	**$ (1.1)**	$ (2.3)	**$ (1.1)**	$ (2.3)

As of September 30, 2009, the unrealized losses recorded in accumulated other comprehensive income, net of tax, of $1.4 million, are expected to be reclassified into earnings over the next twelve months as the hedged sales are recorded.

Note 6 Other (Income) Expense

In the third quarter we recorded a $1.7 million gain related to a prior year sale of a business, primarily due to an earn-out payment from the buyer. During the second quarter of 2009, we updated our estimate of costs required to remediate environmental exposures at former sites in Lodi, New Jersey and in France and accordingly increased our reserves by $1.7 million. During the first nine months of 2008, we increased our environmental accruals by $7.6 million for the former site in Lodi, New Jersey and recorded $2.7 million of expense in connection with the termination of our U.S. Qualified Defined Benefit Retirement Plan.

Note 7 Income Taxes

The effective tax rates for the third quarters ended September 30, 2009 and 2008 were 19.7% and 36.1%, respectively. The rates reflect tax benefits of $1.2 million from the recognition of additional 2008 and 2009 U.S. Research and Development (R&D) tax credits during the third quarter 2009, the result of our tax planning initiatives and $1.8 million related to the reversal of a reserve for uncertain tax positions partly offset by an additional provision of $0.8 million related to the gain on the sale of our interest in BHA in the third quarter 2008.

The effective tax rates for the nine months ended September 30, 2009 and 2008 were 28.0% and 21.8%, respectively. In addition to the third quarter items mentioned above, the rates also reflect tax benefits of $1.1 million from the reversal of reserves for uncertain tax positions as a result of an audit settlement for the first nine months of 2009 and $17.2 million for the reinstatement of U.S. deferred tax assets which had previously been written off for the first nine months of 2008. In addition, primarily as a result of the elimination of our U.S. defined pension plan, a $3.6 million tax charge (previously included in other comprehensive income) was recognized in the nine month period of 2008.

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Note 8 - Net Income per Common Share

(In millions, except per share data)	Quarter Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Basic net income per common share:				
Net income	**$ 10.4**	$ 33.0	**$ 50.6**	$ 82.9
Weighted average common shares outstanding	**96.9**	96.5	**96.9**	96.3
Basic net income per common share	**$ 0.11**	$ 0.34	**$ 0.52**	$ 0.86
Diluted net income per common share:				
Net income	**$ 10.4**	$ 33.0	**$ 50.6**	$ 82.9
Weighted average common shares outstanding Basic	**96.9**	96.5	**96.9**	96.3
Plus incremental shares from assumed conversions:				
Restricted stock units	**0.5**	0.3	**0.6**	0.4
Stock options	**0.7**	1.0	**0.6**	1.1
Weighted average common shares outstanding Dilutive	**98.1**	97.8	**98.1**	97.8
Diluted net income per common share	**$ 0.11**	$ 0.34	**$ 0.52**	$ 0.85

Total shares underlying stock options of 2.0 million for the quarter and 2.1 million for the nine months were excluded from the computation of diluted net income per share for the periods ended September 30, 2009, as they were anti-dilutive.

Note 9 - 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 and nine months ended September 30, 2009 and 2008 were as follows:

(In millions)	Quarter Ended September 30, 2009	2008	Nine-Months Ended September 30, 2009	2008
Net income	**$ 10.4**	$ 33.0	**$ 50.6**	$ 82.9
Currency translation adjustments	**7.1**	(20.2)	**15.3**	(10.4)
Pension and other postretirement obligations	**0.4**		**(0.9)**	5.7
Net unrealized (losses) gains on financial instruments	**1.5**	(6.3)	**7.2**	(6.1)
Comprehensive income	**$ 19.4**	$ 6.5	**$ 72.2**	$ 72.1

Note 10 Investments in Affiliated Companies

Asian Composites Manufacturing Sdn. Bhd.

Prior to September 2009, we had a 33.33% ownership interest in this joint venture located in Alor Setar, Malaysia. The joint venture manufactures composite parts for secondary structures for commercial aircraft. In September 2009, we increased our ownership percentage to 50%. Concurrently, Boeing Worldwide Operations Limited, the other existing equity investor also increased its ownership percentage to 50%. In connection therewith, we have considered the accounting and disclosure requirements regarding variable interest entities, and believe that we are not the primary beneficiary of such entity, and therefore, are not required to consolidate this entity.

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 our 40.48% interest in BHA. The Company received cash proceeds (before taxes) in the amount of $22.3 million and recorded a pre-tax gain on the sale of $12.5 million in the third quarter of 2008 which is included in equity in earnings on the accompanying condensed consolidated statement of operations. We also recorded a tax provision of $0.8 million related to the sale, so the after-tax gain was $11.7 million or $0.12 per diluted share.

Note 11 Fair Value Measurements

The authoritative guidance for fair value measurements 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.

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- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by comparable 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, we utilize 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 September 30, 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 September 30, 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.

At September 30, 2009 assets measured at fair value include money market funds of $70.6 million and foreign currency exchange contracts of $3.7 million; liabilities measured at fair value include foreign currency exchange contracts of $3.9 million and cross-currency interest rate swaps of $9.6 million. The measurements for these assets and liabilities were based upon Level 2 inputs.

Note 12 - Segment Information

The financial results for our operating segments are prepared using a management approach, which is consistent with the basis and manner in which we internally segregate financial information for the purpose of assisting in making internal operating decisions. We evaluate the performance of our operating segments based on operating income, and generally account for intersegment sales based on arm s length prices.

Corporate and certain other expenses are not allocated to the operating segments, except to the extent that the expense can be directly attributable to the business segment.

Financial information for our business segments for the quarters and nine months ended September 30, 2009 and 2008 is as follows:

			Unaudited	
(In millions)	**Composite Materials**	**Engineered Products**	**Corporate & Other**	**Total**
Third Quarter 2009				
Net sales to external customers:				
Commercial aerospace	**$ 86.4**	**$ 41.1**	**$**	**$ 127.5**
Space and defense	**54.5**	**20.0**		**74.5**
Industrial	**54.9**	**0.2**		**55.1**
Net sales to external customers	**195.8**	**61.3**		**257.1**
Intersegment sales	**6.2**	**0.1**	**(6.3)**	
Total sales	**202.0**	**61.4**	**(6.3)**	**257.1**
Operating income (a)	**20.8**	**7.8**	**(9.0)**	**19.6**
Depreciation and amortization	**11.0**	**1.0**		**12.0**
Stock-based compensation expense	**0.6**	**0.1**	**0.5**	**1.2**
Accrual based additions to capital expenditures	**17.1**	**0.8**		**17.9**
Third Quarter 2008				
Net sales to external customers:				
Commercial aerospace	$ 131.9	$ 44.6	$	$ 176.5
Space and defense	58.5	17.1		75.6
Industrial	78.2	1.1		79.3
Net sales to external customers	268.6	62.8		331.4
Intersegment sales	9.2		(9.2)	
Total sales	277.8	62.8	(9.2)	331.4
Operating income	39.1	6.4	(9.6)	35.9
Depreciation and amortization	9.7	1.1		10.8
Business consolidation and restructuring expenses	0.5	0.2		0.7
Stock-based compensation expense	0.6	0.2	1.0	1.8
Accrual based additions to capital expenditures	38.0	0.5	1.1	39.6
Nine Months Ended September 30, 2009				
Net sales to external customers:				
Commercial aerospace	**$ 289.8**	**$ 129.3**	**$**	**$ 419.1**
Space and defense	**169.2**	**57.3**		**226.5**
Industrial	**195.0**	**1.1**		**196.1**
Net sales to external customers	**654.0**	**187.7**		**841.7**
Intersegment sales	**21.7**	**0.1**	**(21.8)**	
Total sales	**675.7**	**187.8**	**(21.8)**	**841.7**
Operating income (a)	**96.1**	**26.5**	**(33.4)**	**89.2**
Depreciation and amortization	**31.2**	**3.1**	**0.2**	**34.5**
Stock-based compensation expense	**2.4**	**0.5**	**3.8**	**6.7**
Accrual based additions to capital expenditures	**64.1**	**1.1**	**0.6**	**65.8**
Nine Months Ended September 30, 2008				
Net sales to external customers:				
Commercial aerospace	$ 423.6	$ 143.5	$	$ 567.1
Space and defense	175.4	49.4		224.8
Industrial	240.0	3.5		243.5
Net sales to external customers	839.0	196.4		1,035.4
Intersegment sales	31.1	0.3	(31.4)	
Total sales	870.1	196.7	(31.4)	1,035.4
Operating income	123.2	22.5	(44.1)	101.6

Depreciation and amortization	29.9	3.2	0.1	33.2
Business consolidation and restructuring expenses	2.3	0.2		2.5
Stock-based compensation expense	2.3	0.5	5.9	8.7
Accrual based additions to capital expenditures	121.2	1.8	2.8	125.8

(a) Operating income for the quarter ended September 30, 2009 within the corporate and other segment includes a $1.7 million gain on the sale of a business sold in a prior year resulting from an earn-out payment from the buyer. Operating income for the nine months ended September 30, 2009 within the corporate and other segment also includes an offsetting expense of $1.7 million related to the increase in environmental remediation liabilities. Operating income for the nine months ended September 30, 2008 within the corporate and other segment includes $7.6 million related to the increase in environmental remediation liabilities and $2.7 million of other expense as described within Note 6 to the condensed consolidated financial statements.

(a) Operating income for the quarter ended September 30, 2009 within the corporate and other segment inclu

Goodwill and Intangible Assets

The carrying amount of goodwill and intangible assets by segment is as follows:

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(In millions)	September 30, 2009	December 31, 2008
Composite Materials	**$ 40.9**	$ 39.9
Engineered Products	**16.0**	16.1
Goodwill and intangible assets	**$ 56.9**	$ 56.0

Note 13 - Business Consolidation and Restructuring Programs

Reserves associated with the remaining restructuring programs include certain expected severance payments associated with reorganization programs announced in prior years and lease payments remaining on facilities no longer used. The aggregate business consolidation and restructuring liabilities accrued for these programs at December 31, 2008, consisted of $2.0 million for employee severance and $0.9 for the facility and equipment. There have been no additional expenses during 2009. Severance payments related to these programs were $0.1 million for the quarter and $1.2 million for the nine months of 2009. Facility related payments were $0.1 million for the quarter and $0.3 million for the nine months of 2009. At September 30, 2009, we have a $1.4 million reserve to cover future payments.

Note 14 Commitments and Contingencies

We are involved in litigation, investigations and claims arising out of the normal conduct of our business, including those relating to commercial transactions, environmental, employment, and health and safety matters. We estimate and accrue our liabilities when a loss becomes probable and estimable. These judgments take into consideration a variety of factors, including the stage of the proceeding; potential settlement value; assessments by internal and external counsel; and assessments by environmental engineers and consultants of potential environmental liabilities and remediation costs. Such estimates are not discounted to reflect the time value of money due to the uncertainty in estimating the timing of the expenditures, which may extend over several years.

While it is impossible to ascertain the ultimate legal and financial liability with respect to certain contingent liabilities and claims, we believe, based upon our examination of currently available information, our experience to date, and advice from legal counsel, that any individual and aggregate liabilities resulting from the ultimate resolution of these contingent matters, after taking into consideration our existing insurance coverage and amounts already provided for, will not have a material adverse impact on our consolidated results of operations, financial position or cash flows.

Environmental Matters

We are subject to various U.S. and international federal, state and local environmental, and health and safety laws and regulations. We are also subject to liabilities arising under the Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund), the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and similar state and international laws and regulations that impose responsibility for the control, remediation and abatement of air, water and soil pollutants and the manufacturing, storage, handling and disposal of hazardous substances and waste.

We have been named as a potentially responsible party (PRP) with respect to several hazardous waste disposal sites that we do not own or possess, which are included on, or proposed to be included on, the Superfund National Priority List of the U.S. Environmental Protection Agency (EPA) or on equivalent lists of various state governments. Because CERCLA allows for joint and several liability in certain circumstances, we could be responsible for all remediation costs at such sites, even if we are one of many PRPs. We believe, based on the amount and the nature of our waste, and the number of other financially viable PRPs, that our liability in connection with such matters will not be material.

Lodi, New Jersey Site

Pursuant to the New Jersey Industrial Site Recovery Act, we entered into a Remediation Agreement to pay for the environmental remediation of a manufacturing facility we own and formerly operated in Lodi, New Jersey. We have commenced remediation of this site in accordance with an approved plan; however, the ultimate cost of remediating the Lodi site will depend on developing circumstances. The total accrued liability related to this matter was $6.2 million as of September 30, 2009.

Lower Passaic River Study Area

In October 2003, we received, along with 66 other entities, a directive from the New Jersey Department of Environmental Protection (NJDEP) that requires the entities to assess whether operations at various New Jersey sites, including our former manufacturing site in Lodi, New Jersey, caused damage to natural resources in the Lower Passaic River watershed. In May 2005, the NJDEP dismissed us from the Directive. In February 2004, 42 entities, including Hexcel, received a general notice letter from the EPA which requested that the entities consider helping to finance an estimated $10 million towards an EPA study of environmental conditions in the Lower Passaic River watershed. In May 2005, we signed onto an agreement with the EPA to participate (bringing the total number of participating entities to 43) in financing such a study up to

$10 million, in the aggregate. Since May 2005, a number of additional PRPs have joined into the agreement with the EPA. In October 2005, we along with the other EPA notice recipients were advised by the EPA that the notice recipients share of the costs of the EPA study was expected to significantly exceed the earlier EPA estimate. While we and the other recipients were not obligated by our agreement to share in such excess, a Group of notice recipients (73 companies including Hexcel) negotiated an agreement with the EPA to assume responsibility for the study pursuant to an Administrative Order on Consent. Work on the study is ongoing. We believe we have viable defenses to the EPA claims and expect that other as yet unnamed parties also will receive notices from the EPA. In June 2007, the EPA issued a draft Focused Feasibility Study (FFS) that considers six interim remedial options for the lower eight miles of the river, in addition to a no action option. The estimated costs for the six action options range from $900 million to $2.3 billion. The PRP group provided comments to the EPA on the FFS; EPA has not yet taken further action. The Administrative Order on Consent regarding the study does not cover work contemplated by the FFS. Furthermore, the Federal Trustees for natural resources have indicated their intent to perform a natural resources damage assessment on the river and invited the PRPs to participate in the development and performance of this assessment. The PRP Group, including Hexcel, has not agreed to participate in the assessment at this time. Finally, on February 4, 2009, Tierra Solutions (Tierra) and Maxus Energy Corporation (Maxus) filed a third party complaint in New Jersey Superior Court against us and over 300 other entities in an action brought against Tierra and Maxus (and other entities) by the State of New Jersey. We entered into a Joint Defense Agreement with many of the third-party defendants (approximately 120 to date). New Jersey s suit against Tierra and Maxus relates to alleged discharges of contaminants by Tierra and Maxus to the Passaic River and seeks payment of all past and future costs the State has and will incur regarding cleanup and removal of contaminants, investigation of the Passaic River and related water bodies, assessment of natural resource injuries and other specified injuries. The third party complaint seeks contribution from us for all or part of the damages that Tierra and Maxus may owe to the State. We have not yet responded to the complaint; our response is due thirty days after Tierra and Maxus file documentation purportedly supporting their allegations against Hexcel, which have not been filed to date. Our initial disclosures are due 45 days after filing our answer; however, substantially all additional third-party discovery and motions practice have been stayed until May 2010. Our ultimate liability for investigatory costs, remedial costs and/or natural resource damages in connection with the Lower Passaic River cannot be determined at this time.

Kent, Washington Site

We were party to a cost-sharing agreement regarding the operation of certain environmental remediation systems necessary to satisfy a post-closure care permit issued to a previous owner of the our Kent Washington, site by the EPA. Under the terms of the cost-sharing agreement, we were obligated to reimburse the previous owner for a portion of the cost of the required remediation activities. Management has determined that the cost-sharing agreement terminated in December 1998; however, the other party disputes this determination. The Washington Department of Ecology (Ecology) has issued a unilateral Enforcement Order requiring us to (a) maintain the interim remedial system and to perform system separation, (b) to conduct a focused remedial investigation and (c) to conduct a focused feasibility study to develop recommended long term remedial measures. We asserted defenses against performance of the order, particularly objecting to the remediation plan proposed by the previous owner, who still owns the adjacent contaminated site. Hexcel and Ecology have reached an agreement to modify certain work requirements and to extend certain deadlines, which agreement is being formalized; we believe this agreement will remove current and potential compliance issues.

Omega Chemical Corporation Superfund Site, Whittier, CA

We are a PRP at a former chemical waste site in Whittier, CA. The PRPs at Omega have established a PRP Group, the Group , and are currently investigating and remediating soil and groundwater at the site pursuant to a Consent Decree with the EPA, entered into in March 2000. Hexcel contributed approximately 1.07% of the waste tonnage sent to the site during its operations. The EPA has recently sent a Special Notice letter to 155 PRPs, including the Company, requiring the Group to remediate on-site soils and to begin good faith negotiations with EPA regarding $10 million in Agency oversight expenses. In addition to the Omega site specifically, there is regional groundwater contamination in the area as well. EPA has not determined who it will identify as PRPs to investigate and, as necessary, remediate the regional groundwater contamination. Although, as a member of the Group, Hexcel has contributed, and expects to continue to contribute, funds which will offset the regional investigation and remediation, our ultimate liability, if any, in connection with this matter cannot be determined at this time.

Environmental Summary

Our estimate of liability as a PRP and our remaining costs associated with our responsibility to remediate the Lodi, New Jersey; Kent, Washington; and other sites are accrued in the consolidated balance sheets. As of September 30, 2009, our aggregate environmental related accruals were $9.0 million, of which $4.5 million was included in accrued liabilities with the remainder included in non-current liabilities. As related to certain environmental matters, the accrual was estimated at the low end of a range of possible outcomes since no amount within the range is a better estimate than any other amount. If we had accrued for these matters at the high end of the range of possible outcomes, our accrual would have been $4.5 million higher. These accruals can change significantly from period to period due to such factors as additional information on the nature or extent of contamination, the methods of remediation required, changes in the apportionment of costs among responsible parties and other actions by governmental agencies or private parties, or the impact, if any, of being named in a new matter.

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Environmental remediation spending charged directly to our reserve balance was $0.8 million and $0.6 million for the quarters ended September 30, 2009 and 2008, respectively, and $2.2 million and $2.1 million for the nine months ended September 30, 2009 and 2008, respectively. In addition, our operating costs relating to environmental compliance charged directly to expense were $2.4 million and $2.7 million for the quarters ended September 30, 2009 and 2008, respectively, and $7.4 million and $8.2 million for the nine months ended September 30, 2009 and 2008, respectively. Capital expenditures for environmental matters were $1.5 million and $1.8 million for the quarters ended September 30, 2009 and 2008, respectively, and $3.5 million and $4.1 million for the nine months ended September 30, 2009 and 2008, respectively.

Litigation

Gurit Infringement Claim

Our Austrian subsidiary has been sued in Germany and Austria by Gurit, a European competitor of prepreg materials sold into the wind energy market. Gurit alleges that the Company s HexFIT® prepreg made in Austria and sold in Germany to Vestas infringes a Gurit EU patent. Gurit also has had its counsel issue a cease and desist letter with respect to our sales to a minor wind energy customer in Denmark. Vestas is our largest wind energy customer and in Europe manufactures blades for wind turbines in Germany, Denmark and Spain. The suits seek an injunction to prevent the Company from making or selling HexFIT® in Germany and Austria and also seek damages for past infringement. Regarding the Gurit patent itself, we are appealing a decision of the European patent office (EPO) which upheld the validity of the patent in an opposition proceeding. In our appeal we generally assert that the patent is not valid based on prior art, particularly prior art not previously considered by the EPO when it granted and later upheld the patent. At a hearing in May 2009, the German court deferred making a final ruling and instead ordered that a technical expert be appointed to assist it in reaching a decision on whether there is infringement. The expert has not yet been selected. We intend to prosecute the appeal in the EPO which will be heard in November 2009. Furthermore, we believe that HexFIT® does not infringe the patent, and should it be upheld, we intend to vigorously defend the infringement suits in Germany and Austria.

Seemann Composites, Inc. v. Hexcel Corporation

Seemann Composites, Inc., (SCI) has sued us in the United States District Court, Southern District of Mississippi (Civil Action No. 1:09-cv-00675-HSO-JMR), filed September 16, 2009. SCI alleges that we supplied the wrong or a defective finished fabric to them, through one of our distributors, and is seeking damages, including punitive damages, due to breach of warranty, negligence, reckless and intentional misconduct. We deny their allegations and intend to vigorously defend the suit.

Product Warranty

We provide for an estimated amount of product warranty expense at the time revenue is recognized. This estimated amount is provided by product and based on historical warranty experience. In addition, we periodically review our warranty accrual and record any adjustments as deemed appropriate. Warranty expense for the quarter and nine months ended September 30, 2009, and accrued warranty cost, included in accrued liabilities in the condensed consolidated balance sheets at September 30, 2009 and December 31, 2008, was as follows:

(In millions)		Product Warranties
Balance as of December 31, 2008	$	3.8
Warranty expense		2.5
Deductions and other		(1.9)
Balance as of June 30, 2009		4.4
Warranty expense		**0.7**
Deductions and other		**(0.6)**
Balance as of September 30, 2009	**$**	**4.5**

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

Business Overview

Hexcel Corporation and its subsidiaries, is a leading advanced composites company. We develop, manufacture, and market lightweight, high-performance composites, including carbon fibers, reinforcements, prepregs, honeycomb, matrix systems, adhesives and composite structures, for use in commercial aerospace, space and defense and industrial applications. Our products are used in a wide variety of end applications, such as commercial and military aircraft, rotorcraft, space launch vehicles and satellites, wind turbine blades, automotive and a wide variety of recreational equipment.

We serve international markets through manufacturing facilities and sales offices located in the United States, Europe and Asia, and through sales representation offices located in Asia, Australia and South America. We also hold a 50% interest in Asian Composites Manufacturing Sdn. Bhd., located in Malaysia, which manufactures composite structures for commercial aerospace.

Hexcel has two segments, Composite Materials and Engineered Products. The Composite Materials segment manufactures and markets carbon fibers, fabrics and specialty reinforcements, prepregs, structural adhesives, honeycomb, composite panels, molding compounds, polyurethane systems and laminates that are incorporated into many applications, including military and commercial aircraft, rotorcraft, wind turbine blades and recreational products. The Engineered Products segment manufactures and markets composite structures and precision machined honeycomb parts for use primarily in the aerospace industry. Composite structures are manufactured from a variety of composite and other materials, including prepregs, honeycomb, structural adhesives and advanced molding materials, using such manufacturing processes as autoclave processing, multi-axis numerically controlled machining, heat forming, compression molding and other composite manufacturing techniques.

The global economic downturn, significant supply chain inventory adjustments and availability of credit for end customers has affected demand from commercial aerospace customers and for wind energy programs. Though there are short term uncertainties, the focus on increasing alternative energy sources continues to promise a bright future for wind energy. More importantly, the compelling economics of new, lightweight, wide body aircraft that have become critical to end user demand remain intact. Although this translates into a favorable demand mix that includes a higher percentage of composite rich models, current economic conditions and new program delays lead us to be cautious in the near term regarding projected build-rates and wind energy project funding.

Net sales for the quarter were $257.1 million, 22.4% lower (21.1% lower in constant currency) than the $331.4 million reported for the third quarter of 2008. Year to date, net sales are 15.2% lower than last year in constant currency. The drop in sales is related to significant supply chain inventory adjustments, the rapid decline in the regional and business aircraft market and new program delays. The wind energy market is also now experiencing lower levels of demand as financing issues facing wind generator customers have begun to delay previously announced projects.

Therefore, in response to these tough market conditions, Hexcel has taken the difficult but necessary steps to control its cost structure in the near term while preserving our ability to meet customers needs over the medium term. In the quarter we continued to reduce headcount, controllable costs, capital expenditures and inventories. We have furloughed workers at several plants and reduced the number of days that several of our facilities are in operation in an effort to better balance our cost structure with the current demand environment. These actions have translated into strong free cash flows (defined as cash provided by operating activities less capital expenditures) for the Company as we generated $36 million in free cash flow for the quarter, and we are now $58 million free cash flow positive for the year as compared to $82 million of usage in the first nine months of 2008.

There were significant working capital improvements as the lower sales volumes combined with concerted efforts to reduce accounts receivable and inventories resulted in $30 million of cash in 2009 from working capital as compared to a $75 million use of cash for the same period in 2008. Accrual basis additions to capital expenditures were $65.8 million in the first nine months of 2009, as compared to $125.8 million during the first nine months of 2008.

Commercial aerospace sales declined 27.8% (27.0% constant currency) for the quarter and 26.1% (23.8% constant currency) for the nine month period and were down across all sectors as our customers tightened inventory management as we enter a more cautious period. The majority of our sales to this market are for large aircraft produced by Airbus and Boeing. After a three year period of record orders from 2005 to 2007, followed by a robust year of orders in 2008, these two OEMs combined only had 193 net orders and a number of deferrals for the first nine months of 2009. This however, still leaves over 6,900 planes in backlog. Based on estimates from Airbus and Boeing, they expect to deliver about 960 aircraft in 2009 (717 were delivered in the first nine months on 2009), and if this happens it would exceed the previous highest number of deliveries of 914 in 1999. Nonetheless, the current poor global credit environment leads to significant concerns about the demand, timing and financial ability of airline operators to acquire new aircraft in backlog. As a result, there remains significant uncertainty and a wide range of views regarding new aircraft build schedules in 2010 and beyond. Offsetting this negative outlook to some extent, new aircraft such as the Boeing 787 and 747-8 as well as Airbus A380 and A350 will add incremental sales as they come into production and ramp-up to full production rates because of significant increased Hexcel content per plane.

In 2008, other commercial aerospace sales, which include regional and business aircraft, totaled almost $200 million in 2008, while the current run rate based on the last two quarters is now in the range of $100 million per year. This reduction reflects the sharp

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drop in demand that, for the most part, began in the second quarter of 2009 as a result of the current global economic environment.

Space and Defense sales were down 1.5% (flat in constant currency) for the quarter and essentially flat for the nine month period (up 3.5% in constant currency). We continue to benefit from our extensive qualifications to supply composite materials and, in some cases, composite structures to a broad range of rotorcraft, transport, fixed wing attack and satellite programs around the world. No one program represents more than 10% of our revenue in this market, but the C17 and F22 are among our important programs and could be curtailed in the future. These two programs combined account for about 15% of our Space and Defense sales. On the other hand, sales from rotorcraft, including the V22 tilt rotor program, and the eventual ramp-up of the Joint Strike Fighter and the new A400M transport are expected to offset the potential impact of one or two program cancellations over time.

Industrial sales were down 30.5% (27.9% in constant currency) for the quarter and down 19.5% (12.0% in constant currency) for the nine months from last year. Wind energy sales, which have historically been primarily European based, comprise more than half of the industrial sales and were down more than 25% in constant currency from third quarter 2008 levels, after being flat in constant currency for the first half of 2009 as compared to 2008. Existing and new wind turbine projects are clearly being hampered by difficult credit markets. Recent clarity in the American Recovery and Reinvestment Act of 2009 should help restart order flow in the U.S., where we have just had our first sales of qualified material from our new Windsor, Colorado facility. Our shipments to the American Centrifuge Project stopped in August as USEC, the developer of the American Centrifuge Project, works with the Department of Energy to try and obtain the necessary loan guarantees to enable them to resume the project.

The much lower sales volume more than offset improvements gained from factory productivity initiatives, headcount reductions, lower commodity and freight costs and overall good cost control for the quarter and nine months ended September 30, 2009. The strengthening of the Dollar against the Euro and the British pound over most of the last year creates mixed effects on our results. The Dollar movement against the two currencies resulted in a decrease in sales of $5.7 million in the quarter and $43.4 million in the nine-month period on a year over year basis. However, operating income was slightly favorably impacted by these same currency movements for the nine months of 2009 as compared to same period in 2008 as many European commercial aerospace sales are generally in US Dollars with related costs in Euros and British pounds.

Third Quarter and Nine Months Results

(In millions, except per share data)	**Quarter Ended September 30, 2009**	**2008**	**% Change**	**Nine Months Ended September 30, 2009**	**2008**	**% Change**
Net sales	$ 257.1	$ 331.4	(22.4)%	$ 841.7	$ 1,035.4	(18.7)%
Operating income	19.6	35.9	(45.4)%	89.2	101.6	(12.2)%
Net income	10.4	33.0	(68.5)%	50.6	82.9	(39.0)%
Diluted net income per common share	$ 0.11	$ 0.34		$ 0.52	$ 0.85	
Non-GAAP measures:						
Adjusted operating income	$ 17.9	$ 36.6	(51.1)%	$ 89.2	$ 114.4	(22.0)%
As a percentage of net sales	*7.0%*	*11.0%*		*10.6%*	*11.0%*	
Adjusted net income	$ 9.3	$ 21.3	(56.3)%	$ 50.6	$ 64.0	(20.9)%
Adjusted diluted earnings per share	$ 0.10	$ 0.22		$ 0.52	$ 0.66	

The Company uses non-GAAP financial operating measures, including sales measured in constant dollars, operating income adjusted for non-recurring operating expenses and business consolidation and restructuring expenses, net income adjusted for non-recurring expenses, the effective tax rate adjusted for certain one-time items and free cash flow. Management believes these non-GAAP measurements are meaningful to investors because they provide a view of Hexcel with respect to ongoing operating results and comparisons to prior periods. Non-recurring items and certain tax adjustments represent significant charges or credits that are important to an understanding of Hexcel s overall operating results in the periods presented. Such non-GAAP measurements are not determined in accordance with generally accepted accounting principles and should not be viewed as an alternative to GAAP measures of performance. The following is a reconciliation from GAAP to non-GAAP amounts for operating and net income.

(In millions, except per share data)	**Quarter Ended September 30, 2009**	**2008**	**Nine Months Ended September 30, 2009**	**2008**
Operating income	$ 19.6	$ 35.9	$ 89.2	$ 101.6
Adjustment to prior year gain on sale of a business (a)	(1.7)		(1.7)	
Environmental Expense (b)			1.7	7.6
Business consolidation & restructuring expense		0.7		2.5
Pension Settlement Expense				2.7
Adjusted operating income	$ 17.9	$ 36.6	$ 89.2	$ 114.4
Net income	$ 10.4	$ 33.0	$ 50.6	$ 82.9
Adjustment to prior year gain on sale of a business (a)	(1.1)		(1.1)	
Gain on sale of investment in affiliated companies (c)		(11.7)		(11.7)
Tax adjustments (d)				(13.6)
Environmental Expense (net of tax) (b)			1.1	4.7
Pension Settlement Expense (net of tax)				1.7
Adjusted net income	$ 9.3	$ 21.3	$ 50.6	$ 64.0

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(a) The three and nine-month periods of 2009 include a $1.7 million ($1.1 million after-tax) net gain related to the 2007 sale of a business, primarily due to the receipt of an earn-out payment from the buyer.

(b) The nine-month period of 2009 Environmental Expense adjustments relate to an increase to the estimated remediation costs for the Lodi, New Jersey site and another facility in France (sold in 2007). The nine-month period of 2008 Environmental Expense relates to an increase to the estimated remediation costs for the Lodi site.

(c) The third quarter of 2008 includes $11.7 million after tax gain from the sale of our joint venture interest in BHA.

(d) The nine months ended September 30, 2008 includes a total of $13.6 million in net benefit primarily related to the reinstatement of U.S. deferred tax assets which had been previously written off.

Net Sales

Net sales decreased for the quarter and nine months ended September 30, 2009 from the same periods in 2008, reflecting lower sales volume in Commercial Aerospace and Industrial markets. Sales for the quarter ended September 30, 2009 were 22.4% (21.1% in constant currency) lower than the same quarter in 2008 and sales for the nine months ended September 30, 2009 were 18.7% (15.2% in constant currency) lower than the nine months ended September 30, 2008.

The following table summarizes net sales to third-party customers by segment and end market for the quarters and nine months ended September 30, 2009 and 2008:

	Quarter Ended September 30,			Nine Months Ended September 30,		
(In millions)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Consolidated Net Sales	**$ 257.1**	**$ 331.4**	**(22.4)%**	**$ 841.7**	**$ 1,035.4**	**(18.7)%**
Commercial Aerospace	127.5	176.5	(27.8)%	419.1	567.1	(26.1)%
Space & Defense	74.5	75.6	(1.5)%	226.5	224.8	0.8%
Industrial	55.1	79.3	(30.5)%	196.1	243.5	(19.5)%
Composite Materials	**$ 195.8**	**$ 268.6**	**(27.1)%**	**$ 654.0**	**$ 839.0**	**(22.1)%**
Commercial Aerospace	86.4	131.9	(34.5)%	289.8	423.6	(31.6)%
Space & Defense	54.5	58.5	(6.8)%	169.2	175.4	(3.5)%
Industrial	54.9	78.2	(29.8)%	195.0	240.0	(18.8)%
Engineered Products	**$ 61.3**	**$ 62.8**	**(2.4)%**	**$ 187.7**	**$ 196.4**	**(4.4)%**
Commercial Aerospace	41.1	44.6	(7.8)%	129.3	143.5	(9.9)%
Space & Defense	20.0	17.1	17.0%	57.3	49.4	16.0%
Industrial	0.2	1.1	(81.8)%	1.1	3.5	(68.6)%

Commercial Aerospace: Net sales decreased $49.0 million, or 27.8% (27.0% on a constant currency basis), to $127.5 million for the third quarter of 2009. Net sales for the nine months ended September 30, 2009 decreased $148.0 million or 26.1% (23.8% on a constant currency basis) to $419.1 million from the nine months ended September 30, 2008. The supply chain inventory adjustments begun earlier in the year continued in full force resulting in exaggerated sales declines, particularly for Airbus programs. Sales from our Engineered Products segment were only down 2.4% for the quarter. These sales have much shorter lead times in advance of aircraft delivery and are less subject to significant inventory adjustments. As a result, these sales were the only ones impacted in September 2008 when the Boeing strike started last year. Revenues attributed to new aircraft programs (A380, A350, B787 and B747-8) for the third quarter were consistent with those in the first half of 2009, and slightly higher than last year. The impact of foreign exchange rates reduced Commercial Aerospace sales by $1.9 million and $16.8 million in the three and nine months ended September 30, 2009, respectively.

Sales to other aerospace sectors, which include regional and business aircraft customers, were down over 50% as compared to the third quarter 2008 as the impact of announced production cut-backs in this segment has been felt since last quarter.

Space & Defense: Net sales decreased $1.1 million, or 1.5% (essentially flat on a constant currency basis), to $74.5 million for the third quarter of 2009. Net sales for the nine months ended September 30, 2009 increased $1.7 million, or 0.8% (3.5% on a constant currency basis) to $226.5 million. Rotorcraft sales continue to be strong. The impact of foreign exchange rates reduced Space and Defense sales by $0.9 million and $5.9 million in the three and nine months ended September 30, 2009, respectively.

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Industrial: Net sales decreased $24.2 million, or 30.5% (a decrease of 27.9% on a constant currency basis), to $55.1 million for the third quarter of 2009. Net sales for the nine months ended September 30, 2009 decreased $47.4 million or 19.5% (a decrease of 12.0% on constant currency basis) to $196.1 million. Wind energy sales, which have historically been primarily European based, comprise more than half of the industrial sales and were down more than 25% in constant currency from third quarter 2008. Existing and new wind turbine projects are clearly being hampered by difficult credit markets. The impact of foreign exchange rates reduced Industrial sales by $2.9 million and $20.7 million in the three and nine months ended September 30, 2009, respectively.

Gross Margin

(In millions)	Quarter Ended September 30, 2009	2008	% Change	Nine Months Ended September 30, 2009	2008	% Change
Gross margin	$ 52.1	$ 71.1	(26.7)%	$ 192.2	$ 227.3	(15.4)%
Percentage of sales	20.3%	21.5%		22.8%	22.0%	

The decrease in gross margin of $19.0 million for the third quarter of 2009 and $35.1 million for the first nine months of 2009 resulted primarily from lower sales volume, which more than offset the year-on-year operational improvements, cost controls and headcount reductions taken during the periods. Our headcount is now 15% lower than the June 2008 peak. The gross margin percentage declined 1.4% from the second quarter of 2009, due to both lower volumes and modest headwinds from exchange rates. Foreign exchange rates contributed about 40 basis points to the quarter s improved gross margin percentage over last year and over 50 basis points on a year-to-date basis.

Depreciation and amortization expense, included in cost of sales during the quarter increased $1.2 million to $10.6 million, though on a constant currency basis the expense increased by $1.5 million. For the first nine months of 2009, depreciation and amortization expense increased $1.4 million to $30.9 million, though on a constant currency basis the expense increased $3.2 million.

Selling, General and Administrative Expenses (SG&A)

(In millions)	Quarter Ended September 30, 2009	2008	% Change	Nine Months Ended September 30, 2009	2008	% Change
SG&A expense	$ 25.8	$ 26.9	(4.1)%	$ 80.4	$ 88.9	(9.6)%
Percentage of sales	10.0%	8.1%		9.6%	8.6%	

SG&A expenses for the third quarter and nine-month period decreased from last year reflecting lower spending due to headcount reductions and overall tight cost control which more than offset inflationary increases. Foreign exchange rates reduced SG&A expenses by approximately $0.9 million and $4.9 million for the quarter and nine months of 2009, respectively.

Research and Technology Expenses (R&T)

(In millions)	Quarter Ended September 30, 2009	2008	% Change	Nine Months Ended September 30, 2009	2008	% Change
R&T expense	$ 8.4	$ 7.6	14.1%	$ 22.6	$ 24.1	(6.2)%
Percentage of sales	3.3%	2.3%		2.7%	2.3%	

R&T expenses for the quarter and nine months ended September 30, 2009 increased 14% (about 20% on a constant currency basis), from last year, primarily due to higher qualification costs for new programs. These qualification costs will vary from quarter to quarter. R&T costs decreased 6.2% for the nine-month period compared to last year primarily from favorable foreign exchange rates. R&T expenses were up 3% on a constant currency basis for the nine month period.

Operating Income

(In millions)	Quarter Ended September 30, 2009	2008	% Change	Nine Months Ended September 30, 2009	2008	% Change
Consolidated Operating income	**$ 19.6**	**$ 35.9**	**(45.4)%**	**$ 89.2**	**$ 101.6**	**(12.2)%**
Operating margin	*7.6%*	*10.8%*		*10.6%*	*9.8%*	
Adjusted operating margin	*7.0%*	*11.0%*		*10.6%*	*11.0%*	
Composite Materials	20.8	39.1	(46.8)%	96.1	123.2	(22.0)%
Operating margin	*10.3%*	*14.1%*		*14.2%*	*14.2%*	
Adjusted operating margin	*10.3%*	*14.3%*		*14.4%*	*14.4%*	
Engineered Products	7.8	6.4	21.9%	26.5	22.5	17.8%
Operating margin	*12.7%*	*10.2%*		*14.1%*	*11.4%*	
Adjusted operating margin	*12.7%*	*10.5%*		*14.1%*	*11.5%*	
Corporate & Other	(9.0)	(9.6)	6.3%	(33.4)	(44.1)	24.3%

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Significantly lower sales for the quarter more than offset operational improvements, cost controls and headcount reductions taken during the quarter and nine-month periods. The strong dollar that helped improve our margins in the first six months weakened during the third quarter. Foreign exchange rates contributed about 70 basis points to the quarter and year to date operating income percentage, as compared to last year.

Interest Expense

(In millions)	Quarter Ended September 30, 2009	2008	% Change	Nine Months Ended September 30, 2009	2008	% Change
Interest expense, net	$ 6.9	$ 4.6	50.0%	$ 19.8	$ 15.5	27.7%
Percentage of sales	2.7%	1.4%		2.4%	1.5%	

The increase in interest expense for the quarter was due to the higher average borrowing costs as a result of the new term loan refinanced in May 2009, the benefit in 2008 from the reversal of accrued interest associated with reserves for uncertain tax positions and the 2009 accelerated amortization of deferred financing costs as a result of term loan debt repayment The current year nine-month period includes $1.7 million of expense related to the write off of deferred financing costs associated with the previous credit facility.

Provision for Income Taxes

(In millions)	Quarter Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Income tax expense	$ 2.5	$ 11.3	$ 19.4	$ 18.8
Effective tax rate	19.7%	36.1%	28.0%	21.8%

The third quarter 2009 income tax provision reflects tax benefits of $1.2 million primarily from the recognition of additional 2008 and 2009 U.S. Research and Development (R&D) tax credits during the third quarter. The year-to-date 2009 tax provision also reflects the release of $1.1 million of reserves for uncertain tax positions as a result of an audit settlement completed during the second quarter. Excluding these benefits, the effective tax rates for the third quarter and nine months ended September 30, 2009 were 29.1% and 31.3%, respectively.

The income tax provision, for the nine months of 2008, included a benefit for the reinstatement of $17.2 million of U.S. deferred tax assets which had previously been written off and $1.8 million related to the reversal of reserves for uncertain tax positions partly offset by an additional provision of $0.8 million related to the gain on the sale of our interest in BHA in the third quarter of 2008. Additionally, as a result of the elimination of our U.S. defined pension plan, a $3.6 million tax provision was recognized in the second quarter of 2008. Excluding these benefits, the effective tax rates for the third quarter and nine months ended September 30, 2008 were 39.3% and 38.8% respectively. Excluding these adjustments, the lower effective tax rates in the current quarter and year-to-date, when compared to last year s quarter, are primarily attributable to tax planning initiatives which have been implemented and are now in effect.

Financial Condition

Liquidity: On May 21, 2009, Hexcel Corporation entered into a new $300 million senior secured credit facility, consisting of a $175 million term loan and a $125 million revolving loan. The term loan matures on May 21, 2014 and the revolving loan matures on May 21, 2013. Proceeds from the term loan, and from an initial borrowing under the revolving loan, were used to repay all amounts, and terminate all commitments, outstanding under Hexcel s old credit agreement and to pay fees and expenses in connection with the refinancing. We incurred $10.4 million in issuance costs related to the refinancing of the Senior Secured Credit Facility, which will be expensed over the life of the facility, and recorded $1.7 million of in interest expense related to the accelerated amortization of deferred financing costs associated with the previous credit facility. The credit agreement contains financial and other covenants, including, but not limited to, restrictions on the incurrence of debt and the granting of liens, as well as the maintenance of an interest coverage ratio and a leverage ratio, and limitations on capital expenditures. At September 30, 2009 we were in compliance with these covenants and we expect to remain in compliance. Depending upon our leverage ratio, there may be a mandatory repayment each year based on 50% of the cash flow generated for the year, as defined in the agreement. The amounts, if any, will be based on final year-end results. Terms of the credit facility are further discussed in Note 4 to the accompanying financial statements.

As of September 30, 2009, we had cash and cash equivalents of $94.7 million. Aggregate borrowings as of September 30, 2009

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under the Senior Secured Credit Facility consisted of $160.8 million of term-loan borrowings. The Senior Secured Credit Facility permits us to issue letters of credit up to an aggregate amount of $40.0 million. Outstanding letters of credit reduce the amount available for borrowing under our revolving loan. As of September 30, 2009, we had issued letters of credit under the Senior Secured Credit Facility totaling $11.8 million resulting in undrawn availability under the Senior Secured Credit Facility as of September 30, 2009 of $113.2 million. In addition, we borrowed $3.0 million from the credit line established in China associated with our operations there. In September 2009 we made four voluntary prepayments, totaling $8.7 million, and one scheduled repayment of $2.2 million on our term-loan borrowings. Our total debt, net of cash, as of September 30, 2009 was $297.6 million, a decrease of $46.1 million from December 31, 2008.

We expect to meet our short-term liquidity requirements (including capital expenditures) through net cash from operating activities, cash on hand and our revolving credit facility. The new facility provides more flexibility for capital expenditures than the old facility and we believe the amounts available are adequate for most of our projected growth scenarios. As of September 30, 2009, long-term liquidity requirements consist primarily of obligations under our long-term debt obligations. We do not have any significant required debt repayments until September 2013, but will be repaying the term loan at a rate of approximately $2.2 million per quarter with our next required payment not due until December 1, 2010. Our revolver facility expires in May 2013.

Operating Activities: Net cash provided by operating activities was $140.0 million in the first nine months of 2009, as compared to $48.6 million in the first nine months of 2008, primarily driven by significant working capital improvement as the lower sales volumes combined with concerted efforts to reduce accounts receivable and inventories resulted in $77.0 million of cash from lower receivables and inventories in 2009 as compared to a $42.1 million use of cash in the first nine months of 2008. These changes were partially offset by a $37.4 million use of cash to pay down accounts payable and accrued liabilities in the first nine months of 2009 as compared to a $35.4 million cash use in the comparable period of 2008.

Investing Activities: Net cash used for investing activities of $88.1 million in the first nine months of 2009 reflects $82.1 million of cash payments for capital expenditures and a $6.0 million investment in our joint venture. This compares to cash payments for capital expenditures of $131.0 million during the first nine months of 2008 partly offset by $22.3 million of net proceeds from the sale of the BHA joint venture in July 2008. The decrease in capital spending primarily reflects the accelerated progress made on our fiber expansion plans in 2008 combined with prudent management of our capital spending in 2009 in response to the current economic climate.

Financing Activities: Financing activities used $13.8 million of net cash in the first nine months of 2009 compared with $80.5 million of cash provided in the same period of 2008. This year, we refinanced our Senior Secured Credit Facility and received $171.5 million of proceeds from a new term loan. The new borrowings were used to repay $167.0 million of term loans existing under the previous facility and $10.4 million of debt issuance costs related to the refinancing. We reduced the term loan balance by $10.9 million, making one schedule repayment and four voluntary prepayments. In addition we borrowed $3.0 million from a line of credit associated with our operations in China. During the first nine months of 2008, we received $79.4 million of proceeds from our Senior Secured Credit Facility in order to fund our cash needs.

Financial Obligations and Commitments: As of September 30, 2009, current maturities of notes payable and capital lease obligations were $3.5 million. The next significant scheduled debt maturity will not occur until 2013, in the amount of $17.5 million plus any outstanding balance on the revolving loan. Our next scheduled term loan payment of $2.2 million is due in December 2010. We have several capital leases for buildings and warehouses with expirations through 2021. In addition, certain sales and administrative offices, data processing equipment and manufacturing equipment and facilities are leased under operating leases.

The term loan under the Senior Secured Credit Facility is scheduled to mature on May 21, 2014 and the revolving loan under the credit facility is scheduled to expire on May 21, 2013. Our senior subordinated notes mature on February 1, 2015.

Critical Accounting Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect reported amounts of assets, liabilities, revenues, expenses and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors management believes to be relevant at the time our condensed consolidated financial statements are prepared. On a regular basis, management reviews accounting policies, assumptions, estimates and judgments to ensure our financial statements are presented fairly and in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual results may differ from our assumptions and estimates, and such differences could be material.

We describe our significant accounting policies and critical accounting estimates in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008. There were no significant changes in our accounting policies and estimates since the end of

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fiscal 2008.

Recently Issued Accounting Pronouncements

New accounting pronouncements that have been recently issued but not yet adopted by us are included in Note 1, Significant Accounting Policies to the accompanying condensed consolidated financial statements.

Forward-Looking Statements

Certain statements contained in Management s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, should, will, and similar terms ar references to assumptions. Such statements are based on current expectations, are inherently uncertain, and are subject to changing assumptions.

Such forward-looking statements include, but are not limited to: (a) the estimates and expectations based on aircraft production rates made publicly available by Boeing and Airbus; (b) the revenues we may generate from an aircraft model or program; (c) the impact of the possible push-out in deliveries of the Airbus and Boeing backlog and the impact of delays in new aircraft programs; (d) expectations of composite content on new commercial aircraft programs and our share of those requirements; (e) expectations of growth in revenues from space & defense applications, including whether certain programs might be curtailed or discontinued; (f) expectations regarding growth in sales for wind energy, recreation and other industrial applications; (g) expectations regarding working capital trends and expenditures; (h) expectations as to the level of capital expenditures and when we will complete the construction and qualification of capacity expansions; (i) our ability to maintain and improve margins in light of the ramp-up of new facilities and the current economic environment; (j) the outcome of legal matters; (k) our projections regarding the realizability of net operating loss and federal tax credit carryforwards, and the impact of the above factors on our expectations of 2009 financial results; and (l) the impact of various market risks, including fluctuations in interest rates, currency exchange rates, environmental regulations and tax codes, fluctuations in commodity prices, and fluctuations in the market price of our common stock. In addition, actual results may differ materially from the results anticipated in the forward looking statements due to a variety of factors, including but not limited to changing market conditions, increased competition, product mix, inability to achieve planned manufacturing improvements and cost reductions, and conditions in the financial markets.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. Such factors include, but are not limited to, the following: changes in general economic and business conditions; changes in current pricing and cost levels; changes in political, social and economic conditions and local regulations, particularly in Asia and Europe; foreign currency fluctuations; changes in aerospace delivery rates; reductions in sales to any significant customers, particularly Airbus, Boeing or Vestas; changes in sales mix; changes in government defense procurement budgets; changes in military aerospace programs technology; industry capacity; competition; disruptions of established supply channels, particularly where raw materials are obtained from a single or limited number of sources and cannot be substituted by unqualified alternatives; manufacturing capacity constraints; and the availability, terms and deployment of capital.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected, estimated or projected. In addition to other factors that affect our operating results and financial position, neither past financial performance nor our expectations should be considered reliable indicators of future performance. Investors should not use historical trends to anticipate results or trends in future periods. Further, our stock price is subject to volatility. Any of the factors discussed above could have an adverse impact on our stock price. In addition, failure of sales or income in any quarter to meet the investment community s expectations, as well as broader market trends, can have an adverse impact on our stock price. We do not undertake an obligation to update our forward-looking statements or risk factors to reflect future events or circumstances.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

As a result of our global operating and financing activities, we are exposed to various market risks that may affect our consolidated results of operations and financial position. These market risks include, but are not limited to, fluctuations in interest rates, which impact the amount of interest we must pay on certain debt instruments as well as the mark to market impact on excluded forward points from foreign exchange contracts, and fluctuations in currency exchange rates, which impact the U.S. dollar value of transactions, assets and liabilities denominated in foreign currencies. Our primary currency exposures are in Europe, where we have

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significant business activities. To a lesser extent, we are also exposed to fluctuations in the prices of certain commodities, such as electricity, natural gas, oil, aluminum and certain chemicals.

We attempt to net individual exposures, when feasible, taking advantage of natural offsets. In addition, we employ interest rate swap agreements and foreign currency forward exchange contracts for the purpose of hedging certain specifically identified cross-currency interest rate and net currency exposures. The use of such financial instruments is intended to mitigate some of the risks associated with fluctuations in interest rates and currency exchange rates, but does not eliminate such risks. We do not use financial instruments for trading or speculative purposes.

Interest Rates

Our financial results are affected by interest rate changes on certain of our debt instruments. Without the benefit of interest rate swap agreements our ratio of floating debt to total debt was about 43% as of September 30, 2009. In order to manage our exposure to interest rate movements or variability, we may from time-to-time enter into interest rate swap agreements and other financial instruments.

Cross-Currency Interest Rate Swap Agreement

In September 2006, we entered into a cross-currency interest rate swap agreement to hedge a portion of our net Euro 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. There was no impact to interest expense for the current quarter. The impact to interest expense for the nine months ended September 30, 2009 was a net increase of $0.1 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 September 30, 2009 and December 31, 2008 was a liability of $9.6 million and $7.3 million, respectively.

Foreign Currency Exchange Risks

We have significant business activities in Europe. We operate manufacturing facilities in Europe, which generated approximately 52% of our 2008 consolidated net sales. Our European business activities primarily involve three major currencies the U.S. dollar, the British pound, and the Euro. We also conduct business or have joint venture investments in China, Malaysia and Australia, and sell products to customers throughout the world. A significant portion of our transactions with customers and joint venture affiliate outside of Europe are denominated in U.S. dollars, thereby limiting our exposure to short-term currency fluctuations involving these countries. However, the value of our investments in these countries could be impacted by changes in currency exchange rates over time, as could our ability to profitably compete in international markets.

We attempt to net individual currency positions at our various European operations, to take advantage of natural offsets and reduce the need to employ foreign currency forward exchange contracts. We also enter into short-term foreign currency forward exchange contracts, usually with a term of ninety days or less, to hedge net currency exposures resulting from specifically identified transactions. Consistent with the nature of the economic hedge provided by such contracts, any unrealized gain or loss would be offset by corresponding decreases or increases, respectively, of the underlying transaction being hedged.

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. We entered into contracts to exchange U.S. dollars for Euros and GBP through April 2011. The aggregate notional amount of these contracts was $92.3 million at September 30, 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. 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 contracts are designated as cash flow hedges of forecasted revenues. We exclude the forward points from the effectiveness assessment. For the quarters and nine months ended September 30, 2009 and 2008, hedge ineffectiveness was immaterial.

The change in fair value of our foreign currency forward exchange contracts under hedge designations recorded within accumulated other comprehensive income for the quarters and nine months ended September 30, 2009 and 2008 was as follows:

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(In millions)	Quarter Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Unrealized gains (losses) at beginning of period, net of tax	**$ (2.5)**	$ 3.7	**$ (8.9)**	$ 3.2
(Gains) Losses reclassified to net sales	**1.3**	(0.5)	**3.7**	(2.3)
Increase in fair value	**0.1**	(5.5)	**4.1**	(3.2)
Unrealized losses at end of period, net of tax	**$ (1.1)**	$ (2.3)	**$ (1.1)**	$ (2.3)

As of September 30, 2009, the total unrealized losses recorded in accumulated other comprehensive income, net of tax, of $1.4 million, are expected to be reclassified into earnings over the next twelve months as the hedged sales are recorded.

For further information regarding market risks, refer to our 2008 Annual Report on Form 10-K.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

Changes in Internal Controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there any material weaknesses in our internal controls. As a result, no corrective actions were required or undertaken.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The information required by Item 1 is contained within Note 14 on pages 14 through 16 of this Form 10-Q and is incorporated herein by reference.

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. In addition, future uncertainties may increase the magnitude of these adverse affects or give rise to additional material risks not now contemplated.

ITEM 4. Submission of Matters to a Vote of Security Holders

ITEM 5. Other Information

On October 26, 2009, we issued a press release announcing our financial results for the fiscal quarter and nine months ended September 30, 2009. A copy of this press release is being furnished as Exhibit 99.1 and is incorporated herein by reference. Exhibit 99.1 is being furnished and shall not be deemed filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Exhibit 99.1 shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, except as expressly set forth in a future filing.

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On October 26, 2009, the Company posted to its website a table which summarizes sales by operating segment and market segment for the quarters ended September 30, 2009 and 2008, June 30, 2009 and 2008 and the nine-month periods ended September 30, 2009 and 2008. A copy of this information is being furnished as Exhibit 99.2 and is incorporated herein by reference.

ITEM 6. Exhibits

Exhibit No.	**Description**
31.1	Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release issued by the Company on October 26, 2009.
99.2	Sales by operating segment and market segment for the quarters ended September 30, 2009 and 2008, June 30, 2009 and 2008 and the nine-month periods ended September 30, 2009 and 2008.
99.3	Agreement, dated August 7, 2009, by and between Hexcel Corporation and Doron D. Grosman.

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Signature

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 hereunto duly authorized.

	Hexcel Corporation
October 26, 2009 (Date)	/s/ Kimberly Hendricks Kimberly Hendricks Vice President, Controller and Chief Accounting Officer

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