

HEXCEL CORP /DE/  
Form 10-Q  
April 21, 2014  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the Quarter Ended March 31, 2014**

**or**

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

**For the transition period from to**

**Commission File Number 1-8472**

## Hexcel Corporation

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

**94-1109521**  
(I.R.S. Employer Identification No.)

**Two Stamford Plaza**

**281 Tresser Boulevard**

**Stamford, Connecticut 06901-3238**

(Address of principal executive offices and zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

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

Class  
COMMON STOCK

Outstanding at April 15, 2014  
97,789,103

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**HEXCEL CORPORATION AND SUBSIDIARIES**

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[Table of Contents](#)**PART I. FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements (Unaudited)****Hexcel Corporation and Subsidiaries****Condensed Consolidated Balance Sheets**

|                                                                                                                                              |    | (Unaudited) |              |
|----------------------------------------------------------------------------------------------------------------------------------------------|----|-------------|--------------|
|                                                                                                                                              |    | March 31,   | December 31, |
|                                                                                                                                              |    | 2014        | 2013         |
| (In millions, except per share data)                                                                                                         |    |             |              |
| <b>Assets</b>                                                                                                                                |    |             |              |
| Current assets:                                                                                                                              |    |             |              |
| Cash and cash equivalents                                                                                                                    | \$ | 50.0        | \$ 65.5      |
| Accounts receivable, net                                                                                                                     |    | 280.9       | 232.4        |
| Inventories                                                                                                                                  |    | 283.9       | 265.3        |
| Prepaid expenses and other current assets                                                                                                    |    | 86.9        | 93.2         |
| Total current assets                                                                                                                         |    | 701.7       | 656.4        |
| Property, plant and equipment                                                                                                                |    | 1,701.8     | 1,661.2      |
| Less accumulated depreciation                                                                                                                |    | (610.5)     | (593.8)      |
| Property, plant and equipment, net                                                                                                           |    | 1,091.3     | 1,067.4      |
| Goodwill and intangible assets                                                                                                               |    | 61.1        | 61.0         |
| Investments in affiliated companies                                                                                                          |    | 22.1        | 23.3         |
| Deferred tax assets                                                                                                                          |    | 10.0        | 10.3         |
| Other assets                                                                                                                                 |    | 18.5        | 17.7         |
| Total assets                                                                                                                                 | \$ | 1,904.7     | \$ 1,836.1   |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                  |    |             |              |
| Current liabilities:                                                                                                                         |    |             |              |
| Short-term borrowings                                                                                                                        | \$ | 2.8         | \$ 3.0       |
| Accounts payable                                                                                                                             |    | 131.8       | 135.9        |
| Accrued liabilities                                                                                                                          |    | 129.3       | 129.8        |
| Total current liabilities                                                                                                                    |    | 263.9       | 268.7        |
| Long-term debt                                                                                                                               |    | 352.0       | 292.0        |
| Other non-current liabilities                                                                                                                |    | 123.8       | 115.0        |
| Total liabilities                                                                                                                            |    | 739.7       | 675.7        |
| Stockholders' equity:                                                                                                                        |    |             |              |
| Common stock, \$0.01 par value, 200.0 shares authorized, 104.5 and 104.0 shares issued at March 31, 2014 and December 31, 2013, respectively |    | 1.0         | 1.0          |
| Additional paid-in capital                                                                                                                   |    | 663.7       | 642.3        |
| Retained earnings                                                                                                                            |    | 686.2       | 636.1        |
| Accumulated other comprehensive income                                                                                                       |    | 9.8         | 10.7         |
|                                                                                                                                              |    | 1,360.7     | 1,290.1      |
|                                                                                                                                              |    | (195.7)     | (129.7)      |

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|                                                                                                |    |                |            |
|------------------------------------------------------------------------------------------------|----|----------------|------------|
| Less Treasury stock, at cost, 6.6 shares at March 31, 2014 and 5.1 shares at December 31, 2013 |    |                |            |
| Total stockholders' equity                                                                     |    | <b>1,165.0</b> | 1,160.4    |
| Total liabilities and stockholders' equity                                                     | \$ | <b>1,904.7</b> | \$ 1,836.1 |

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

Table of Contents**Hexcel Corporation and Subsidiaries****Condensed Consolidated Statements of Operations**

| (In millions, except per share data)                                      | (Unaudited)<br>Quarter Ended March 31, |          |
|---------------------------------------------------------------------------|----------------------------------------|----------|
|                                                                           | 2014                                   | 2013     |
| Net sales                                                                 | \$ 461.7                               | \$ 416.5 |
| Cost of sales                                                             | 332.5                                  | 304.5    |
| Gross margin                                                              | 129.2                                  | 112.0    |
| Selling, general and administrative expenses                              | 41.0                                   | 38.0     |
| Research and technology expenses                                          | 13.6                                   | 11.0     |
| Operating income                                                          | 74.6                                   | 63.0     |
| Interest expense, net                                                     | 1.8                                    | 1.7      |
| Income before income taxes and equity in earnings of affiliated companies | 72.8                                   | 61.3     |
| Provision for income taxes                                                | 22.8                                   | 17.9     |
| Income before equity in earnings of affiliated companies                  | 50.0                                   | 43.4     |
| Equity in earnings of affiliated companies                                | 0.1                                    | 0.2      |
| Net income                                                                | \$ 50.1                                | \$ 43.6  |
| Basic net income per common share:                                        | \$ 0.51                                | \$ 0.43  |
| Diluted net income per common share:                                      | \$ 0.50                                | \$ 0.43  |
| Weighted average common shares outstanding:                               |                                        |          |
| Basic                                                                     | 98.5                                   | 100.4    |
| Diluted                                                                   | 100.6                                  | 102.1    |

**Hexcel Corporation and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income**

| (In millions)                                                                    | (Unaudited)<br>Quarter Ended March 31, |         |
|----------------------------------------------------------------------------------|----------------------------------------|---------|
|                                                                                  | 2014                                   | 2013    |
| Net income                                                                       | \$ 50.1                                | \$ 43.6 |
| Currency translation adjustments                                                 | 0.4                                    | (17.0)  |
| Net unrealized pension and other benefit actuarial gains and prior service costs |                                        | 2.6     |
| Net unrealized losses on financial instruments, net of tax                       | (1.3)                                  | (6.2)   |
| Other comprehensive loss                                                         | (0.9)                                  | (20.6)  |
| Comprehensive income                                                             | \$ 49.2                                | \$ 23.0 |

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





Table of Contents**Hexcel Corporation and Subsidiaries****Condensed Consolidated Statements of Cash Flows**

| (In millions)                                                    | (Unaudited)<br>Three Months Ended<br>March 31, |         |
|------------------------------------------------------------------|------------------------------------------------|---------|
|                                                                  | 2014                                           | 2013    |
| <b>Cash flows from operating activities</b>                      |                                                |         |
| Net income                                                       | \$ 50.1                                        | \$ 43.6 |
| Reconciliation to net cash provided by operating activities:     |                                                |         |
| Depreciation and amortization                                    | 17.1                                           | 14.3    |
| Amortization of deferred financing costs                         | 0.3                                            | 0.5     |
| Deferred income taxes                                            | 19.3                                           | 1.2     |
| Equity in earnings from affiliated companies                     | (0.1)                                          | (0.2)   |
| Stock-based compensation                                         | 8.8                                            | 8.7     |
| Excess tax benefits on stock-based compensation                  | (3.5)                                          | (3.7)   |
| Changes in assets and liabilities:                               |                                                |         |
| Increase in accounts receivable                                  | (48.3)                                         | (40.2)  |
| Increase in inventories                                          | (18.3)                                         | (16.2)  |
| (Increase) decrease in prepaid expenses and other current assets | (6.4)                                          | 2.7     |
| Increase in accounts payable and accrued liabilities             | 11.9                                           | 20.8    |
| Other-net                                                        | 2.5                                            | 1.7     |
| Net cash provided by operating activities                        | 33.4                                           | 33.2    |
| <b>Cash flows from investing activities</b>                      |                                                |         |
| Capital expenditures                                             | (55.0)                                         | (48.1)  |
| Net cash used for investing activities                           | (55.0)                                         | (48.1)  |
| <b>Cash flows from financing activities</b>                      |                                                |         |
| Proceeds from senior secured credit facility                     | 60.0                                           | 21.0    |
| Repayment of capital lease obligation and other debt, net        | (0.2)                                          | (1.3)   |
| Repayment of senior secured credit facility - term loan          |                                                | (2.5)   |
| Repurchase of stock                                              | (48.3)                                         | (15.0)  |
| Activity under stock plans                                       | (5.2)                                          | (0.3)   |
| Net cash provided by financing activities                        | 6.3                                            | 1.9     |
| Effect of exchange rate changes on cash and cash equivalents     | (0.2)                                          | (1.3)   |
| Net decrease in cash and cash equivalents                        | (15.5)                                         | (14.3)  |
| Cash and cash equivalents at beginning of period                 | 65.5                                           | 32.6    |
| Cash and cash equivalents at end of period                       | \$ 50.0                                        | \$ 18.3 |
| <b>Supplemental data:</b>                                        |                                                |         |
| Accrual basis additions to property, plant and equipment         | \$ 40.0                                        | \$ 41.4 |

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

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**HEXCEL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note 1 Significant Accounting Policies**

In these notes, the terms Hexcel, 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, 2013 for a discussion of our significant accounting policies.

*Basis of Presentation*

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

In the opinion of management, the condensed consolidated financial statements include all normal recurring adjustments as well as any non-recurring adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. The condensed consolidated balance sheet as of December 31, 2013 was derived from the audited 2013 consolidated balance sheet. Interim results are not necessarily indicative of results expected for any other interim period or for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 5, 2014.

*Investments in Affiliated Companies*

We have a 50% equity ownership investment in an Asian joint venture Aerospace Composites Malaysia Sdn. Bhd. We have determined that this investment is not a variable interest entity. As such, we account for our share of the earnings of this affiliated company using the equity method of accounting.

**Note 2 Net Income per Common Share**

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| (In millions, except per share data)                     | Quarter Ended March 31, |         |
|----------------------------------------------------------|-------------------------|---------|
|                                                          | 2014                    | 2013    |
| <b>Basic net income per common share:</b>                |                         |         |
| Net income                                               | \$ 50.1                 | \$ 43.6 |
| Weighted average common shares outstanding               | 98.5                    | 100.4   |
| Basic net income per common share                        | \$ 0.51                 | \$ 0.43 |
| <b>Diluted net income per common share:</b>              |                         |         |
| Net income                                               | \$ 50.1                 | \$ 43.6 |
| Weighted average common shares outstanding Basic         | 98.5                    | 100.4   |
| <i>Plus incremental shares from assumed conversions:</i> |                         |         |
| Restricted stock units                                   | 0.7                     | 0.7     |
| Stock options                                            | 1.4                     | 1.0     |
| Weighted average common shares outstanding Dilutive      | 100.6                   | 102.1   |
| Diluted net income per common share                      | \$ 0.50                 | \$ 0.43 |

Total shares underlying stock options of 0.2 million and 0.8 million were excluded from the computation of diluted net income per share for the quarters ended March 31, 2014 and 2013, respectively, as they were anti-dilutive.

Table of Contents**Note 3 Inventories**

| (In millions)     | March 31,<br>2014 | December 31,<br>2013 |
|-------------------|-------------------|----------------------|
| Raw materials     | \$ 116.9          | \$ 103.4             |
| Work in progress  | 61.9              | 62.2                 |
| Finished goods    | 105.1             | 99.7                 |
| Total inventories | \$ 283.9          | \$ 265.3             |

**Note 4 Retirement and Other Postretirement Benefit Plans**

We maintain qualified and nonqualified defined benefit retirement plans covering certain current and former U.S. and European employees, retirement savings plans covering eligible U.S. employees and certain postretirement health care and life insurance benefit plans covering eligible U.S. retirees. We also participate in a union sponsored multi-employer pension plan covering certain U.S. employees with union affiliations.

Defined Benefit Retirement Plans*Net Periodic Benefit Costs*

Net periodic benefit costs of our defined benefit retirement plans for the quarters ended March 31, 2014 and 2013 were as follows:

| (In millions)                                             | Quarter Ended March 31,<br>2014 | 2013   |
|-----------------------------------------------------------|---------------------------------|--------|
| <i>U.S. Nonqualified Defined Benefit Retirement Plans</i> |                                 |        |
| Service cost                                              | \$ 0.3                          | \$ 0.7 |
| Interest cost                                             | 0.2                             | 0.2    |
| Net amortization and deferral                             | 0.9                             | 0.7    |
| Settlement expense                                        | 1.3                             |        |
| Net periodic benefit cost                                 | \$ 2.7                          | \$ 1.6 |

|                                                 | March 31,<br>2014 | December 31,<br>2013 |
|-------------------------------------------------|-------------------|----------------------|
| <b>Amounts recognized on the balance sheet:</b> |                   |                      |
| Accrued liabilities                             | \$ 23.8           | \$ 23.8              |
| Other non-current liabilities                   | 20.3              | 18.1                 |
| Total accrued benefit                           | \$ 44.1           | \$ 41.9              |

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| (In millions)                                    | Quarter Ended March 31, |        |
|--------------------------------------------------|-------------------------|--------|
|                                                  | 2014                    | 2013   |
| <i>European Defined Benefit Retirement Plans</i> |                         |        |
| Service cost                                     | \$ 0.2                  | \$ 0.1 |
| Interest cost                                    | 1.8                     | 1.7    |
| Expected return on plan assets                   | (2.4)                   | (1.8)  |
| Net amortization and deferral                    | 0.1                     | 0.2    |
| Net periodic (benefit) cost                      | \$ (0.3)                | \$ 0.2 |

|                                                 | March 31,<br>2014 | December 31,<br>2013 |
|-------------------------------------------------|-------------------|----------------------|
| <b>Amounts recognized on the balance sheet:</b> |                   |                      |
| Noncurrent asset                                | \$ 5.6            | \$ 2.7               |
| Accrued liabilities                             | \$ 1.8            | \$ 0.4               |
| Other non-current liabilities                   | 17.2              | 15.7                 |
| Total accrued benefit                           | \$ 19.0           | \$ 16.1              |

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We generally fund our U.S. non-qualified defined benefit retirement plans when benefit payments are due. Under the provisions of these non-qualified plans, we expect to contribute \$23.8 million in 2014 to cover benefit payments. We contributed \$0.3 million to our U.S. non-qualified defined benefit retirement plans during the 2013 fiscal year.

We contributed \$1.4 million and \$1.5 million to our European defined benefit retirement plans in the first quarter of 2014 and 2013, respectively. We plan to contribute approximately \$3.8 million in total during 2014 to these European plans. We contributed \$5.9 million to our European defined benefit retirement plans during the 2013 fiscal year.

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 ended March 31, 2014 and 2013 were immaterial.

|                                                 | March 31, 2014 | December 31, 2013 |
|-------------------------------------------------|----------------|-------------------|
| <b>Amounts recognized on the balance sheet:</b> |                |                   |
| Accrued liabilities                             | \$ 0.6         | \$ 0.6            |
| Other non-current liabilities                   | 5.5            | 5.8               |
| Total accrued benefit                           | \$ 6.1         | \$ 6.4            |

In connection with our postretirement plans, we contributed \$0.1 million during each of the first quarters ended March 31, 2014 and 2013, respectively. We periodically fund our postretirement plans to pay covered expenses as they are incurred. We expect to contribute approximately \$0.6 million in total in 2014 to cover unfunded benefits. We contributed \$0.3 million to our postretirement plans during the 2013 fiscal year.

**Note 5 Debt**

| (In millions)                                          | March 31,<br>2014 | December 31,<br>2013 |
|--------------------------------------------------------|-------------------|----------------------|
| Working capital line of credit China                   | \$ 2.8            | \$ 3.0               |
| Short-term borrowings                                  | 2.8               | 3.0                  |
| Senior secured credit facility revolving loan due 2018 | 352.0             | 292.0                |
| Long-term debt                                         | 352.0             | 292.0                |
| Total debt                                             | \$ 354.8          | \$ 295.0             |

**Note 6   Derivative Financial Instruments**

*Interest Rate Swap Agreements*

As of March 31, 2014 the Company had two agreements to swap \$75 million of floating rate obligations for fixed rate obligations at an average of 0.959% and 0.75% against LIBOR in U.S. dollars. Of the total of \$150 million of swaps outstanding at March 31, 2014, \$50 million matures each of March 2016, September 2016, and March 2017. All of the swaps were accounted for as cash flow hedges of our floating rate bank loans. To ensure the swaps were highly effective, all the principal terms of the swaps matched the terms of the bank loans. The fair value of each interest rate swap was an asset of \$0.2 million and a liability of \$0.5 million at March 31, 2014.

*Foreign Currency Forward Exchange Contracts*

A number of our European subsidiaries are exposed to the impact of exchange rate volatility between the U.S. dollar and the subsidiaries functional currencies, being either the Euro or the British Pound sterling. We entered into contracts to exchange U.S. dollars for Euros and British Pound sterling through September 2015. The aggregate notional amount of these contracts was \$168.5 million and \$187.1 million at March 31, 2014 and December 31, 2013, respectively. 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. The effective portion of the hedges, gains of \$0.8 million and losses of \$7.7 million, were recorded in other comprehensive income ( OCI ) for the three-month periods ended March 31, 2014, and 2013. The \$10.3 million carrying amount of these contracts was classified

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in other assets and \$0.4 million in other liabilities on the condensed consolidated balance sheets at March 31, 2014 and \$11.5 million in other assets and \$0.6 million classified in other liabilities at December 31, 2013. During the three months ended March 31, 2014 and 2013, we recognized a net \$1.6 million increase and a \$0.2 million net increase in gross margin, respectively. For the quarters ended March 31, 2014 and 2013, 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. During the quarters ended March 31, 2014 and 2013, we recognized net foreign exchange losses of \$0.2 million and \$4.7 million, respectively, in the condensed consolidated statements of operations. The net foreign exchange impact recognized from these hedges offset the translation exposure of these transactions. The carrying amount of the contracts for asset and liability derivatives not designated as hedging instruments was \$1.2 million classified in other assets and \$0.2 million in other liabilities and \$2.6 million classified in other assets and \$0.1 million in other liabilities on the March 31, 2014 and December 31, 2013 condensed consolidated balance sheets, respectively.

The change in fair value of our foreign currency forward exchange contracts under hedge designations recorded net of tax within accumulated other comprehensive income for the quarters ended March 31, 2014 and 2013 was as follows:

| (In millions)                                          | Quarter Ended March 31, |       |    |       |
|--------------------------------------------------------|-------------------------|-------|----|-------|
|                                                        |                         | 2014  |    | 2013  |
| Unrealized gains at beginning of period, net of tax    | \$                      | 7.2   | \$ | 2.4   |
| Gains reclassified to net sales                        |                         | (1.1) |    | (0.2) |
| Increase (decrease) in fair value                      |                         | 0.6   |    | (6.0) |
| Unrealized gains (losses) at end of period, net of tax | \$                      | 6.7   | \$ | (3.8) |

As of March 31, 2014, unrealized gains recorded in accumulated other comprehensive income, net of tax, total \$6.7 million, of which \$4.9 million are expected to be reclassified into earnings over the next twelve months as the hedged sales are recorded.

**Note 7 Income Taxes**

The income tax provisions for the quarters ended March 31, 2014 and 2013 were \$22.8 million and \$17.9 million, respectively. Our effective tax rate for the current quarter was 31.3% as compared to 29.2% in 2013. The prior-year quarter benefitted from the extension of the 2012 and 2013 U.S. Research & Development tax credits that was enacted in January 2013. The full benefit from 2012 was taken in the first quarter of 2013 and reduced the rate by one percentage point.

**Note 8 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.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, 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 consider counterparty credit risk in our assessment of fair value.

We do not have any significant assets or liabilities that utilize Level 3 inputs. In addition, we have no assets or liabilities that utilize Level 1 inputs. 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

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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). The fair value of these assets and liabilities was approximately \$11.7 million and \$1.1 million, and approximately \$14.0 million and \$1.3 million, respectively, at March 31, 2014 and December 31, 2013, respectively. In addition, the fair value of these derivative contracts, which are subject to a master netting arrangement under certain circumstances, is presented on a gross basis in the consolidated balance sheet.

Below is a summary of valuation techniques for all Level 2 financial assets and liabilities:

- Interest rate swaps valued using LIBOR yield curves at the reporting date. Fair value was an asset of \$0.2 million and a liability of \$0.5 million at March 31, 2014.
- Foreign exchange derivative assets and liabilities valued using quoted forward foreign exchange prices at the reporting date. Fair value of assets and liabilities at March 31, 2014 was \$11.5 million and \$0.6 million, respectively.

Counterparties to the above contracts are highly rated financial institutions, none of which experienced any significant downgrades in the three months ended March 31, 2014 that would reduce the receivable amount owed, if any, to the Company.

## Note 9 Segment Information

The financial results for our 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 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 segments, except to the extent that the expense can be directly attributable to the segment.

Financial information for our segments for the quarters ended March 31, 2014 and 2013 is as follows:

| (In millions)                    | (Unaudited)            |                        |                          |          |
|----------------------------------|------------------------|------------------------|--------------------------|----------|
|                                  | Composite<br>Materials | Engineered<br>Products | Corporate<br>& Other (a) | Total    |
| <b>First Quarter 2014</b>        |                        |                        |                          |          |
| Net sales to external customers: |                        |                        |                          |          |
| Commercial aerospace             | \$ 224.8               | \$ 78.4                | \$                       | \$ 303.2 |
| Space and defense                | 68.6                   | 27.0                   |                          | 95.6     |
| Industrial                       | 62.9                   |                        |                          | 62.9     |
| Net sales to external customers  | 356.3                  | 105.4                  |                          | 461.7    |
| Intersegment sales               | 18.5                   | 0.1                    | (18.6)                   |          |
| Total sales                      | 374.8                  | 105.5                  | (18.6)                   | 461.7    |

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|                                                 |      |      |        |      |
|-------------------------------------------------|------|------|--------|------|
| Operating income (a)                            | 75.9 | 16.4 | (17.7) | 74.6 |
| Depreciation and amortization                   | 15.6 | 1.4  | 0.1    | 17.1 |
| Stock-based compensation expense                | 3.3  | 0.7  | 4.8    | 8.8  |
| Accrual basis additions to capital expenditures | 38.4 | 1.6  |        | 40.0 |

**First Quarter 2013**

Net sales to external customers:

|                                 |    |       |    |      |    |        |    |       |
|---------------------------------|----|-------|----|------|----|--------|----|-------|
| Commercial aerospace            | \$ | 201.7 | \$ | 67.2 | \$ |        | \$ | 268.9 |
| Space and defense               |    | 72.8  |    | 23.2 |    |        |    | 96.0  |
| Industrial                      |    | 50.3  |    | 1.3  |    |        |    | 51.6  |
| Net sales to external customers |    | 324.8 |    | 91.7 |    |        |    | 416.5 |
| Intersegment sales              |    | 16.7  |    | 0.6  |    | (17.3) |    |       |
| Total sales                     |    | 341.5 |    | 92.3 |    | (17.3) |    | 416.5 |

|                                                 |      |      |        |      |
|-------------------------------------------------|------|------|--------|------|
| Operating income (a)                            | 67.9 | 13.4 | (18.3) | 63.0 |
| Depreciation and amortization                   | 13.1 | 1.2  |        | 14.3 |
| Stock-based compensation expense                | 2.0  | 0.5  | 6.2    | 8.7  |
| Accrual basis additions to capital expenditures | 38.4 | 3.0  |        | 41.4 |

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(a) We do not allocate corporate expenses to the operating segments.

*Goodwill and Intangible Assets*

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

| (In millions)                  | March 31,<br>2014 | December 31,<br>2013 |
|--------------------------------|-------------------|----------------------|
| Composite Materials            | \$ 45.0           | \$ 45.0              |
| Engineered Products            | 16.1              | 16.0                 |
| Goodwill and intangible assets | \$ 61.1           | \$ 61.0              |

No impairments have been recorded against these amounts.

**Note 10 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 the 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 nature of our waste, our existing insurance coverage, the amounts already provided for 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, Hexcel entered into an Administrative Consent Order for the environmental remediation of a manufacturing facility we own and formerly operated in Lodi, New Jersey. We have been remediating this site in accordance with a State approved plan and continue to do so under the New Jersey Licensed Site Remediation Professional program. Hexcel has completed the primary remediation activities and we are in the process of conducting testing to support a monitored natural attenuation (MNA) program. The accrual is \$1.3 million at March 31, 2014.

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*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. The NJDEP later 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 voluntarily signed into 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. We believe we have viable defenses to the EPA claims and expect that other as yet unnamed parties will also receive notices from the EPA. The Administrative Order on Consent regarding the study does not cover work contemplated by the FFS. In June 2012, without admitting liability, we along with 69 other PRPs entered into a further agreement with EPA to remove and cap contaminated sediments near River Mile 10.9 of the Lower Passaic River at an approximate cost of \$20 million. We accrued \$0.5 million in the second quarter of 2012 for our expected allocation of these costs. Work at River Mile 10.9 is ongoing. Furthermore, the Federal Trustee for natural resources has 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. 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.

In June 2007, the EPA issued a draft Focused Feasibility Study ( FFS ) that considers interim remedial options for the lower eight miles of the river, in addition to a "no action" option. The estimated costs for the six options ranged from \$900 million to \$2.3 billion. The PRP Group provided comments to the EPA on the FFS. On April 11, 2014, the EPA issued the FFS, which proposes the bank to bank dredging of the lower eight miles of the river, which is expected to cost over \$1.73 billion, according to the EPA. The FFS is subject to public comment until June 20, 2014 and a final decision is not expected for several months thereafter. The Administrative Order on Consent regarding the study mentioned above does not cover work contemplated by the FFS. Hexcel is not currently subject to any obligation to undertake this work.

*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 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. The previous owner, who also continues to own an adjacent site, has installed certain remediation and isolation technologies on its upgradient site and is operating those pursuant to an order agreed with the State of Washington. We and the Washington Department of Ecology have reached an agreed order to perform certain cleanup activities on our site by certain deadlines, and we are in full compliance with the order. Ecology has recently approved a reduced number of wells and a reduced pumping volume for Hexcel's wells on its property. The total accrued liability related to this matter was \$0.7 million at March 31, 2014.

*Omega Chemical Corporation Superfund Site, Whittier, CA*

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We are a potentially responsible party at a former chemical waste site in Whittier, CA. The PRPs at Omega have established a PRP Group, the Omega PRP Group, and are currently investigating and remediating soil and groundwater at the site pursuant to a Consent Decree with the EPA. The Omega PRP Group has attributed approximately 1.07% of the waste tonnage sent to the site to Hexcel. In addition to the Omega site specifically, the EPA is investigating the scope of regional groundwater contamination in the vicinity of the Omega site and issued a Record of Decision; the Omega PRP Group members have been noticed by the EPA as PRPs who will be required to be involved in the remediation of the regional groundwater contamination in that vicinity as well. As a member of the Omega PRP group, Hexcel will incur costs associated with the investigation and remediation of the Omega site and the regional groundwater remedy, although our ultimate liability, if any, in connection with this matter cannot be determined at this time, we have accrued \$0.6 million relating to potential liability for both the Omega site and regional groundwater remedies.

### *Summary of Environmental Reserves*

Our estimate of liability as a PRP and our remaining costs associated with our responsibility to remediate the Lodi, New Jersey; Kent, Washington; Omega Chemical and other sites are accrued in the condensed consolidated balance sheets. As of March 31, 2014, our aggregate environmental related accruals were \$2.8 million, of which \$2.5 million was included in

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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 those sites where we are able to estimate our liability, at the high end of the range of possible outcomes, our accrual would have been \$1.5 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.

Environmental remediation spending charged to our reserve balance for the quarters ended March 31, 2014 and 2013 was \$1.0 million and \$0.8 million, respectively. In addition, our operating costs relating to environmental compliance charged to expense were \$3.5 million and \$3.3 million for the quarters ended March 31, 2014 and 2013, respectively. Capital expenditures for environmental matters were \$1.1 million and \$0.8 million for the quarters ended March 31, 2014 and 2013, respectively.

*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 ended March 31, 2014, and accrued warranty cost, included in accrued liabilities in the condensed consolidated balance sheets at March 31, 2014 and December 31, 2013, was as follows:

| (In millions)                          |    | Product<br>Warranties |
|----------------------------------------|----|-----------------------|
| <b>Balance as of December 31, 2013</b> | \$ | 4.5                   |
| Warranty expense                       |    | 0.5                   |
| Deductions and other                   |    | (0.7)                 |
| <b>Balance as of March 31, 2014</b>    | \$ | 4.3                   |

**Note 11 Stock Repurchase Plan**

In July 2013, our Board authorized us to repurchase \$150 million of our outstanding common stock ( 2013 Repurchase Plan ). The Company spent \$48.3 million to repurchase 1,151,218 shares of common stock during the first quarter of 2014 under the 2013 Repurchase Plan. In the fourth quarter of 2013, the Company spent \$40 million to repurchase 896,653 shares of common stock, of which 148,990 shares were settled in January 2014. At March 31, 2014, there is \$61.7 million remaining under the 2013 Repurchase Plan.

In December 2012, our Board authorized us to repurchase up to \$50 million of our outstanding common stock ( 2012 Repurchase Plan ). During the six-month period ended June 30, 2013, the Company repurchased a total of 1,573,588 shares at a cost of \$50 million and completed the 2012 Repurchase Plan.





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

**Business Overview**

We develop, manufacture, and market lightweight, high-performance structural materials, including carbon fibers, specialty reinforcements, prepregs and other fiber-reinforced matrix materials, honeycomb, adhesives, engineered honeycomb and composite structures, for use in Commercial Aerospace, Space & Defense and Industrial Applications. Our products are used in a wide variety of end applications, such as commercial and military aircraft, space launch vehicles and satellites, wind turbine blades, automotive, and a wide variety of recreational products and other industrial applications.

We serve international markets through manufacturing facilities, sales offices and representatives located in the Americas, Asia Pacific, Europe and Russia. We are also an investor in a joint venture in Malaysia, which manufactures composite structures for Commercial Aerospace applications.

Hexcel has two reportable segments, Composite Materials and Engineered Products. The Composite Materials segment is comprised of our carbon fiber, specialty reinforcements, resins, prepregs and other fiber-reinforced matrix materials, and honeycomb core product lines. The Engineered Products segment is comprised of lightweight high strength composite structures, molded components and specialty machined honeycomb product lines.

Net sales for the quarter were \$461.7 million, 10.9% higher (9.7% in constant currency) than the \$416.5 million reported for the first quarter of 2013, led by the Commercial Aerospace market.

Commercial Aerospace sales of \$303.2 million increased 12.8% (12.0% in constant currency) for the quarter as compared to the first quarter of 2013. Revenues attributed to new aircraft programs (A380, B747-8, B787, A350, A320neo and B737 MAX) increased over 25% versus the same period last year, with the A350 and B787 shipments leading the growth. Airbus and Boeing legacy aircraft related sales for the quarter were up about 4% compared to 2013.

Sales to Other Commercial Aerospace, which include regional and business aircraft customers, were over 10% higher compared to the first quarter of 2013, and about the same level as the fourth quarter of 2013.

Space & Defense sales of \$95.6 million were just lower than the first quarter of 2013 and nearly 8% above the fourth quarter of 2013. European and Asian helicopter sales were softer than expected, which offset the growth in the A400M program.

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Total Industrial sales of \$62.9 million for the first quarter of 2014 were 21.9% higher (18.7% in constant currency) than the weak first quarter of 2013. The increases were across the board, including wind sales which were up over 15% in constant currency as compared to the first quarter of 2013.

Sales volume and the continued improvement in operating performance resulted in gross margin of 28.0% of net sales for the quarter, as compared to 26.9% in the first quarter of 2013. Selling, general and administrative expenses were 7.9% higher than the first quarter of 2013. Research and technology expenses in the first quarter of 2014 of \$13.6 million were \$2.6 million higher than the comparable 2013 period as we invested in several development programs for aerospace. We expect the first quarter spend to be the peak for 2014.

Free cash flow (defined as cash provided by operating activities less capital expenditures) for the first quarter of 2014 was a use of \$22 million versus a use of \$15 million in 2013, as seasonal effects typically cause cash usage in the first quarter. The increased usage was due to higher capital expenditures, as cash used for capital expenditures was \$55 million in the first quarter of 2014 as compared to \$48 million in 2013. We continue to expect 2014 accrual basis capital expenditures to be in the range of \$225 million to \$250 million.

Table of Contents**Financial Overview****Results of Operations**

| (In millions, except per share data)  | Quarter Ended March 31, |              | % Change |
|---------------------------------------|-------------------------|--------------|----------|
|                                       | 2014                    | 2013         |          |
| Net sales                             | \$ 461.7                | \$ 416.5     | 10.9%    |
| Net sales change in constant currency |                         |              | 9.7%     |
| Operating income                      | 74.6                    | 63.0         | 18.4%    |
| <i>As a percentage of net sales</i>   | <i>16.2%</i>            | <i>15.1%</i> |          |
| Net income                            | 50.1                    | 43.6         | 14.9%    |
| Diluted net income per common share   | \$ 0.50                 | \$ 0.43      |          |

Net Sales

The following table summarizes net sales to third-party customers by segment and end market for the quarters ended March 31, 2014 and 2013:

| (In millions)                 | Quarter Ended March 31, |                 | % Change     |
|-------------------------------|-------------------------|-----------------|--------------|
|                               | 2014                    | 2013            |              |
| <b>Consolidated Net Sales</b> | <b>\$ 461.7</b>         | <b>\$ 416.5</b> | <b>10.9%</b> |
| Commercial Aerospace          | 303.2                   | 268.9           | 12.8%        |
| Space & Defense               | 95.6                    | 96.0            | (0.4)%       |
| Industrial                    | 62.9                    | 51.6            | 21.9%        |
| <b>Composite Materials</b>    | <b>\$ 356.3</b>         | <b>\$ 324.8</b> | <b>9.7%</b>  |
| Commercial Aerospace          | 224.8                   | 201.7           | 11.5%        |
| Space & Defense               | 68.6                    | 72.8            | (5.8)%       |
| Industrial                    | 62.9                    | 50.3            | 25.0%        |
| <b>Engineered Products</b>    | <b>\$ 105.4</b>         | <b>\$ 91.7</b>  | <b>14.9%</b> |
| Commercial Aerospace          | 78.4                    | 67.2            | 16.7%        |
| Space & Defense               | 27.0                    | 23.2            | 16.4%        |
| Industrial                    |                         | 1.3             | NM           |

**Sales by Segment**

**Composite Materials:** Net sales of \$356.3 million in the first quarter 2014 increased \$31.5 million over the \$324.8 million in the prior year driven by an 11.5% increase in Commercial Aerospace sales. Space and Defense sales declined 5.8% from 2013 and Industrial sales increased to \$62.9 million or 25% compared to a weak first quarter in 2013.

**Engineered Products:** Net sales of \$105.4 million in the first quarter 2014 increased \$13.7 million over the \$91.7 million for 2013 driven by an over 16% increase in Commercial Aerospace and Space & Defense sales. The \$3.8 million increase in Space & Defense sales was primarily

driven by the ramp up of several helicopter programs in the Americas. There are not significant sales to the Industrial market from this segment.

#### **Sales by Market**

Commercial Aerospace: Net sales increased \$34.3 million, or 12.8% (12.0% on a constant currency basis), to \$303.2 million for the first quarter of 2014. New aircraft programs (A380, B747-8, B787, A350, A320neo and B737 MAX) increased over 25% versus the same period last year, with the A350 and B787 shipments leading the growth. Airbus and Boeing legacy aircraft related sales for the quarter were up about 4% compared to 2013. Sales to other commercial aerospace, which includes regional and business aircraft customers, were over 10% higher compared to the first quarter of 2013, and about the same level as the fourth quarter of 2013.

Space & Defense: Net sales of \$95.6 million were just lower than the first quarter of 2013 and nearly 8% above the fourth quarter of 2013. European and Asian helicopter sales were softer than expected, which offset the growth in the A400M program.

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**Industrial:** Total Industrial sales of \$62.9 million for the first quarter of 2014 were 21.9% higher (18.7% in constant currency) than the weak first quarter of 2013. The increases were across the board, including wind sales were up over 15% in constant currency as compared to the first quarter of 2013.

### Gross Margin

| (In millions)       | Quarter Ended March 31, |       |      |          |
|---------------------|-------------------------|-------|------|----------|
|                     | 2014                    |       | 2013 |          |
|                     |                         |       |      | % Change |
| Gross margin        | \$                      | 129.2 | \$   | 112.0    |
| Percentage of sales |                         | 28.0% |      | 26.9%    |

We achieved a gross margin percentage of 28.0% in the first quarter of 2014 benefitting from strong volume and continued improvement in operating performance. Foreign exchange rates were a nominal unfavorable impact to the gross margin percentage as compared to the first quarter of 2013.

### Operating Expenses

| (In millions)       | Quarter Ended March 31, |      |      |          |       |
|---------------------|-------------------------|------|------|----------|-------|
|                     | 2014                    |      | 2013 | % Change |       |
| SG&A expense        | \$                      | 41.0 | \$   | 38.0     | 7.9%  |
| Percentage of sales |                         | 8.9% |      | 9.1%     |       |
|                     |                         |      |      |          |       |
| R&T expense         | \$                      | 13.6 | \$   | 11.0     | 23.6% |
| Percentage of sales |                         | 2.9% |      | 2.6%     |       |

SG&A expenses were up 6.7% in constant currency as compared to the first quarter of 2013. R&T expenses were \$2.6 million higher than the comparable 2013 period primarily due to investments for several development programs for aerospace. The majority of the R&T spend is in the Composites Materials segment. We expect the first quarter's spending to be the peak for 2014.

### Operating Income

| (In millions)                 | Quarter Ended March 31, |       |      |          |       |
|-------------------------------|-------------------------|-------|------|----------|-------|
|                               | 2014                    |       | 2013 | % Change |       |
| Consolidated operating income | \$                      | 74.6  | \$   | 63.0     | 18.4% |
| Operating margin              |                         | 16.2% |      | 15.1%    |       |
| Composite Materials           |                         | 75.9  |      | 67.9     | 11.8% |
| Operating margin              |                         | 20.3% |      | 19.9%    |       |
| Engineered Products           |                         | 16.4  |      | 13.4     | 22.4% |

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|                         |        |        |        |
|-------------------------|--------|--------|--------|
| <i>Operating margin</i> | 15.5%  | 14.5%  |        |
| Corporate & Other       | (17.7) | (18.3) | (3.3)% |

Operating margin increased 110 basis points as compared to first quarter of 2013 driven by higher sales and continued improvements in operating performance. Adjusted for the impact of exchange rates, the improvement was about 20 basis points better.

## Interest Expense, Net

| (In millions)         | Quarter Ended March 31, |     |      |     | % Change |
|-----------------------|-------------------------|-----|------|-----|----------|
|                       | 2014                    |     | 2013 |     |          |
| Interest expense, net | \$                      | 1.8 | \$   | 1.7 | 5.9%     |

The modest increase in interest expense for the first quarter of 2014 was primarily due to higher average borrowings in 2014 partially offset by lower average borrowing costs as a result of the refinancing in June 2013.

Table of ContentsProvision for Income Taxes

| (In millions)      | Quarter Ended March 31, |       |      |       |
|--------------------|-------------------------|-------|------|-------|
|                    | 2014                    |       | 2013 |       |
| Income tax expense | \$                      | 22.8  | \$   | 17.9  |
| Effective tax rate |                         | 31.3% |      | 29.2% |

Our effective tax rate for the quarter was 31.3% as compared to 29.2% in 2013. The 2013 quarter benefitted from the full retroactive impact of the extension of the 2012 U.S. Research & Development tax credits that was enacted in January 2013. The full benefit from 2012 was taken in the first quarter of 2013 and reduced the rate by one percentage point.

**Financial Condition**

**Liquidity:** As of March 31, 2014, we had cash and cash equivalents of \$50.0 million and our total debt, net of cash, was \$304.8 million, as compared to \$229.5 million at December 31, 2013. At March 31, 2014, total borrowings under the \$600 million Senior Secured Credit Facility (the Facility) were \$352 million. The 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 March 31, 2014, we had issued letters of credit under the Facility totaling \$1.8 million, resulting in undrawn availability under the Facility as of March 31, 2014 of \$246 million. In addition, we borrowed \$2.8 million from the credit line established in China associated with our operations there.

The 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. In accordance with the terms of the new facility, we are required to maintain a minimum interest coverage ratio of 3.50 (based on the ratio of EBITDA, as defined in the credit agreement, to interest expense) and may not exceed a maximum leverage ratio of 3.50 (based on the ratio of total debt to EBITDA) throughout the term of the new facility. In addition, the new facility contains other terms and conditions such as customary representations and warranties, additional covenants and customary events of default. As of March 31, 2014 we were in compliance with all debt covenants and expect to remain in compliance.

We expect to meet our short-term liquidity requirements (including capital expenditures) through net cash from operating activities, cash on hand and, if necessary, our revolving credit facility. As of March 31, 2014, long-term liquidity requirements consist primarily of obligations under our long-term debt obligations. We do not have any significant required debt repayments until June 2018 when our revolver facility expires.

**Operating Activities:** Net cash provided by operating activities was \$33.4 million in the first quarter of 2014, as compared to net cash provided by operating activities of \$33.2 million in the first quarter of 2013. Increase in earnings was offset by an increase in working capital due to the sales growth.

**Investing Activities:** Net cash used for investing activities of \$55.0 million and \$48.1 million in the first quarter of 2014 and 2013, respectively, was for capital expenditures.



**Financing Activities:** Financing activities provided \$6.3 million of net cash in the first quarter of 2014 compared to \$1.9 million in the same period of 2013. The increases in borrowings were used for stock repurchases as described below.

In July 2013, our Board authorized us to repurchase up to \$150 million of our outstanding common stock ( 2013 Repurchase Plan ). During the quarter, the Company invested \$48.3 million and bought back shares under its authorized Repurchase Plan. At March 31, 2014, there is \$61.7 million remaining under the 2013 Repurchase Plan.

In the first quarter of 2013, we repurchased \$15 million of stock under a prior share repurchase program.

**Financial Obligations and Commitments:** As of March 31, 2014, current maturities of notes payable (our foreign credit line) were \$2.8 million. The next significant scheduled debt maturity will not occur until 2018, the year the senior secured credit facility matures. Certain sales and administrative offices, data processing equipment and manufacturing facilities are leased under operating leases.

#### **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

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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, 2013. There were no significant changes in our accounting policies and estimates since the end of fiscal 2013.

**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, would, estimate, expect, intend, may, plan, predict, project, should, will, and similar terms and 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 Airbus and Boeing; (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 or the final Hexcel composite material content once the design and material selection has been completed; (d) expectations of composite content on new commercial aircraft programs and our share of those requirements; (e) expectations of growth in revenues from space and 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, including whether certain programs might be curtailed or discontinued; (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 capacity and the current economic environment; (j) the outcome of legal matters; (k) our projections regarding the realizability of net operating loss and tax credit carryforwards; and (l) the impact of various market risks, including fluctuations in interest rates, currency exchange rates, environmental regulations and tax codes, commodity prices, and in the market price of our common stock; the impact of work stoppages or other labor disruptions and the impact of the above factors on our expectations of 2014 financial results. 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, supply chain disruptions 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; 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; unforeseen vulnerability of our network and systems to interruptions or failures; and the availability, terms and deployment of capital.

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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.

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**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

There are no material changes in market risk from the information provided in the Company's 2013 Annual Report on Form 10-K.

**ITEM 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of March 31, 2014 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer have concluded that there have not been any changes in our internal control over financial reporting during the first quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The information required by Item 1 is contained within Note 10 on pages 11 through 13 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, 2013, which could materially affect our business, financial condition or future results. In addition, future uncertainties may increase the magnitude of these adverse effects or give rise to additional material risks not now contemplated.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c)

| Period     |                   | (a)<br>Total Number<br>of<br>Shares (or<br>Units)<br>Purchased | (b)<br>Average Price Paid<br>per Share (or Unit) | (c)<br>Total Number of<br>Shares (or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | (d)<br>Maximum Number (or<br>Approximate Dollar Value) of<br>Shares (or Units) that May Yet<br>Be Purchased Under the Plans or<br>Programs |
|------------|-------------------|----------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| January 1  | January 31, 2014  | 149,190                                                        | \$ 53.33                                         | 149,190                                                                                                        | \$ 109,991,595                                                                                                                             |
| February 1 | February 28, 2014 | 1,061,119                                                      | 41.80                                            | 1,061,991                                                                                                      | 65,631,540                                                                                                                                 |
| March 1    | March 31, 2014    | 89,899                                                         | 43.59                                            | 89,899                                                                                                         | 61,713,255                                                                                                                                 |
| Total      |                   | 1,300,208                                                      | \$ 43.25                                         | 1,300,208(1)                                                                                                   | \$ 61,713,255                                                                                                                              |

(1) In July 2013, our Board authorized us to repurchase \$150 million of our outstanding common stock. The Company spent \$40 million to repurchase 896,653 shares of common stock during the fourth quarter of 2013 under the 2013 Repurchase Plan, of which 148,990 shares were settled in January 2014. Excluding the settlement of the stock repurchased in 2013 and settled in 2014, in the first quarter of 2014 the Company spent \$48.3 million to repurchase an additional 1,151,218 shares of common stock. An additional 50,000 repurchased shares of common stock were settled in April 2014 at a cost of \$2.2 million.

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**ITEM 5. Other Information**

Not applicable

**ITEM 6. Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.                                                                                                                                                                                                                                                          |
| 101                | The following materials from the Hexcel Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) related notes. |

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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

April 21, 2014  
(Date)

/s/ Kimberly Hendricks  
Kimberly Hendricks  
Vice President, Corporate Controller and  
Chief Accounting Officer

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EXHIBIT INDEX

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                            |
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