

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

HEXCEL CORP /DE/
Form 10-K/A
March 31, 2003

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K/A

(AMENDMENT NO. 1)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2002

or

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

For the transition period from _____ to _____
Commission File Number 1-8472

HEXCEL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware 94-1109521
(STATE OF INCORPORATION) (I.R.S. EMPLOYER IDENTIFICATION NO.)

281 Tresser Boulevard
Stamford, Connecticut 06901
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES AND ZIP CODE)
Registrant's telephone number, including area code: (203) 969-0666
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
-----	-----
COMMON STOCK	NEW YORK STOCK EXCHANGE PACIFIC STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:
7% CONVERTIBLE SUBORDINATED NOTES DUE 2003
7% CONVERTIBLE SUBORDINATED DEBENTURES DUE 2011
93/4% SENIOR SUBORDINATED NOTES DUE 2009

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. /X/

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes /X/ No / /

The aggregate market value as of June 30, 2002 of voting common stock held by non-affiliates of the registrant: \$102,107,859

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

Class -----	Outstanding as of March 26, 2003 -----
COMMON STOCK	39,944,962

DOCUMENTS INCORPORATED BY REFERENCE:
PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS
(TO THE EXTENT SPECIFIED HEREIN) -- PART III.

=====

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2003 is to provide disclosure regarding the successful completion of previously announced financing transactions and to present the related impact of such transactions on the Company's consolidated financial and liquidity position. As a result of these subsequent financing transactions, the Report of Independent Accountants has been modified to exclude language expressing any doubts about the Company's ability to continue as a going concern. This amendment also provides for the filing of the financial statements of BHA Aero Composite Parts Co. Ltd., the notes thereto, and the Report of Independent Accountants as required in accordance with Rule 3-09(a) of Regulation S-X. In addition, certain minor typographical errors have been corrected.

Except as otherwise expressly noted herein, this Amendment No. 1 to the Annual Report on Form 10-K does not reflect any other events occurring after the March 3, 2003 filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

The Items of the Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which are amended herein are:

1. Item 1 - Business, has been amended to provide an update to the section entitled "Significant Transactions" for subsequent closure of certain financing transactions.
2. Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, has been amended to provide an update to the sections titled "Business Trends," "Significant Transactions" and "Financial Condition" for the completion of certain financing transactions.
3. Item 8 - Consolidated Financial Statements and Supplementary Data, has been amended to (i) describe the subsequent closure of certain financial transactions in Note 2 - "Refinancing of Capital Structure," (ii) update Note 8 for the impact of such financing transactions, and (iii) add a

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

2002 unaudited pro forma column on the accompanying consolidated balance sheets and Note 24 - "Subsequent Event - Pro Forma Consolidated Balance Sheet (Unaudited)" to illustrate the effects of the subsequent financial transactions, as if the transactions had occurred as of December 31, 2002..

4. Item 15(a).1 - Financial Statements, has been amended to include the financial statements of BHA Aero Composite Parts Co. Ltd., the notes thereto, and the Report of Independent Accountants.

PART I

ITEM 1. BUSINESS.

GENERAL DEVELOPMENT OF BUSINESS

Hexcel Corporation, founded in 1946, was incorporated in California in 1948, and reincorporated in Delaware in 1983. Hexcel Corporation and its subsidiaries (herein referred to as "Hexcel" or "the Company"), is the world's leading producer of advanced structural materials. The Company develops, manufactures and markets lightweight, high-performance reinforcement products, composite materials and composite structures for use in the commercial aerospace, space and defense, electronics, and industrial markets. The Company's products are used in a wide variety of end products, such as commercial and military aircraft, space launch vehicles and satellites, printed wiring boards, computers, cellular telephones, soft body armor, high-speed trains and ferries, cars and trucks, wind turbine blades, reinforcements for bridges and other structures, window blinds and a wide variety of recreational equipment.

The Company serves international markets through manufacturing facilities and sales offices located in the United States and Europe, and through sales offices located in Asia, Australia and South

1

America. The Company is also an investor in six joint ventures, three of which manufacture and market reinforcement products in Europe, Asia and the United States; one of which manufactures and markets composite materials in Japan; and two of which manufacture composite structures and interiors in Asia.

SIGNIFICANT TRANSACTION - REFINANCING OF THE COMPANY'S CAPITAL STRUCTURE

On March 19, 2003, Hexcel successfully completed the refinancing of its capital structure through the simultaneous closings of three financing transactions: the completion of its previously announced sale of mandatorily redeemable convertible preferred stock for \$125.0 million, the issuance of \$125.0 million of 9-7/8% senior secured notes, due 2008, and the establishment of a new \$115.0 million senior secured credit facility, also due 2008.

The proceeds from the sale of the convertible preferred stock have been used to provide for the redemption of \$46.9 million principal amount of the Company's 7% convertible subordinated notes, due 2003, and to repay outstanding borrowings under the existing senior credit facility. Proceeds to be used to redeem the 7% convertible subordinated notes have been remitted to US Bank Trust, trustee for the notes, for the express purpose of retiring the outstanding principal balance of the notes, plus accrued interest.

The remaining advances under the existing senior credit facility, after the application of a portion of the equity proceeds, have been repaid with the proceeds from the issuance of the Company's new 9-7/8% senior secured notes and a new senior secured credit facility.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

With the benefit of the financing transactions, the Company's next significant scheduled debt maturity will not occur until 2008, with annual debt and capital lease maturities ranging between \$6.2 million and \$12.5 million prior to 2008. Total debt as of March 19, 2003, after giving pro forma effect to these financing transactions and their related costs, was \$531.6 million.

Each of the material agreements governing the issuance and terms of the convertible preferred stock, the issuance and terms of the senior secured notes and the terms of the new senior secured credit facility is filed as an exhibit to this Annual Report on Form 10-K/A.

MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

On March 19, 2003, Hexcel issued 125,000 shares of a series A convertible preferred stock and 125,000 shares of a series B convertible preferred stock for \$125.0 million in cash. Upon issuance, the total number of Hexcel's outstanding common shares including potential shares issuable upon conversion of both of the new series of convertible preferred stocks increased from approximately 38.6 million shares to approximately 88.4 million shares. In addition, common shares authorized for issuance increased from 100.0 million shares to 200.0 million shares.

Hexcel issued 77,875 shares of series A convertible preferred stock and 77,875 shares of series B convertible preferred stock to affiliates of Berkshire Partners LLC and Greenbriar Equity Group LLC (the "Berkshire/Greenbriar Investors") for a cash payment of approximately \$77.9 million. The series A and the series B convertible preferred stocks are mandatorily redeemable on January 22, 2010 for cash or for common stock at the Company's election. Both preferred stocks are convertible, at the option of the holder, into common stock at a conversion price of \$3.00 per share, and will automatically be converted into common stock if the closing trading price of the common stock for any period of 60 consecutive trading days ending after March 19, 2006 exceeds \$9.00 per share. The preferred stockholders are entitled to vote on an as converted basis with Hexcel's common stockholders. The series A preferred stock accrues dividends at a rate of 6% per annum following the third anniversary of the issuance. Dividends may be paid in cash or added to the accrued value of the preferred stock, at Hexcel's option. The series B preferred stock does not accrue dividends. After giving effect to the issuances, the Berkshire/Greenbriar Investors own approximately 35.2% of Hexcel's outstanding voting securities.

2

Hexcel has separately issued 47,125 shares of series A convertible preferred stock and 47,125 shares of series B convertible preferred stock to investment funds controlled by affiliates of The Goldman Sachs Group, Inc. (the "Goldman Sachs Investors"), who currently own approximately 37.8% of Hexcel's outstanding common stock, for a cash payment of approximately \$47.1 million. This issuance of preferred stock enabled the Goldman Sachs Investors to maintain their current percentage ownership interest in Hexcel's voting securities, consistent with their rights under the governance agreement entered into with Hexcel in 2000.

In conjunction with the aforementioned transactions, Hexcel and the Berkshire/Greenbriar Investors entered into a stockholders agreement, which gives the Berkshire/Greenbriar Investors the right to nominate up to two directors (of a total of ten) to Hexcel's board of directors and certain other rights. The Goldman Sachs Investors will continue to have the right to nominate up to three directors under the governance agreement entered into at the time of their investment in Hexcel in 2000. The stockholders agreement and the amended Goldman Sachs Investors governance agreement require that the approval of at

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

least six directors, including at least two directors not nominated by the Berkshire/Greenbriar Investors or the Goldman Sachs Investors, be obtained for board actions generally. The stockholders agreement also prohibits the purchase of voting securities in excess of 39.5% of Hexcel's outstanding voting securities unless approved by Hexcel's board. The Berkshire/Greenbriar Investors and the Goldman Sachs Investors have agreed to an 18-month lock up on the securities being issued, except for certain registered offerings.

SENIOR SECURED NOTES, DUE 2008

The Company also issued, through a private placement under Rule 144A, \$125.0 million of 9 7/8% senior secured notes at a price of 98.95% of face value. The senior secured notes, due October 1, 2008, are secured by a first priority security interest in substantially all of Hexcel's and its domestic subsidiaries' property, plant and equipment, intangibles, intercompany notes and other obligations receivable, and 100% of the outstanding voting stock of certain of Hexcel's domestic subsidiaries. In addition, the senior secured notes are secured by a pledge of 65% of the stock of Hexcel's French and UK first-tier holding companies. This pledge of foreign stock is on an equal basis with a substantially identical pledge of such stock given to secure the obligations under the Company's new senior secured credit facility, described below. The senior secured notes are also guaranteed by Hexcel's material domestic subsidiaries. Hexcel has the ability to incur additional debt that would be secured on an equal basis by the collateral securing the senior secured notes. The amount of additional secured debt that may be incurred is currently limited to \$10.0 million, but may increase over time based on a formula relating to the total net book value of Hexcel's domestic property, plant and equipment.

The Company will pay interest on the notes on April 1st and October 1st of each year. The first payment will be made on October 1, 2003. The Company will have the option to redeem all or a portion of the notes at any time during the one-year period beginning April 1, 2006 at 104.938% of principal plus accrued and unpaid interest. This percentage decreases to 102.469% for the one-year period beginning April 1, 2007, and to 100.0% for the period beginning April 1, 2008. In addition, the Company may use the net proceeds from one or more equity offerings at any time prior to April 1, 2006 to redeem up to 35% of the aggregate principal amount of the notes at 109.875% of the principal amount, plus accrued and unpaid interest.

The indenture governing the senior secured notes contains many other terms and conditions, including limitations with respect to asset sales, incurrence of debt, granting of liens, the making of restricted payments and entering into transactions with affiliates.

Hexcel has agreed, under a registration rights agreement, to offer to all noteholders the opportunity to exchange their notes for new notes that are substantially identical to the existing notes except that the new notes will be registered with the Securities and Exchange Commission ("SEC") and will not have any restrictions on transfer. In the event that Hexcel cannot affect such an exchange, Hexcel will be required to file a shelf registration statement with the SEC to permit the noteholders to resell their notes generally without restriction.

SENIOR SECURED CREDIT FACILITY

Also on March 19, 2003, Hexcel entered into a \$115.0 million asset-backed senior secured credit facility with a new syndicate of lenders led by Fleet Capital Corporation as agent. The credit facility matures on March 31, 2008. Borrowers under the credit facility include, in addition to Hexcel Corporation,

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Hexcel's operating subsidiaries in the UK, Austria and Germany. The credit facility provides for borrowings of U.S. dollars, Pound Sterling and Euro currencies, including the issuance of letters of credit, with the amount available to each borrower dependent on the borrowing base of that borrower and its subsidiaries. For Hexcel Corporation and the UK borrower, the borrowing base is determined by an agreed percentage of eligible accounts receivable and eligible inventory, subject to certain reserves. The borrowing base of each of the Austrian and German borrowers is based on an agreed percentage of eligible accounts receivable, subject to certain reserves. In addition, the UK, Austrian and German borrowers have facility sublimits of \$12.5 million, \$7.5 million and \$5.0 million, respectively. Borrowings under the new facility bear interest at a floating rate based on either the agent's defined "prime rate" plus a margin that can vary from 0.75% to 3.25% or LIBOR plus a margin that can vary from 2.25% to 3.25%. The margin in effect for a borrowing at any given time depends on the Company's fixed charge ratio and the currency denomination of such borrowing. The credit facility also provides for the payment of customary fees and expenses.

All obligations under the credit facility are secured by a first priority security interest in accounts receivable, inventory and cash and cash equivalents of Hexcel Corporation and its material domestic subsidiaries. In addition, all obligations under the credit facility are secured by a pledge of 65% of the stock of Hexcel's French and UK first-tier holding companies. This pledge of foreign stock is on an equal basis with a substantially identical pledge of such stock given to secure the obligations under the senior secured notes. The obligations of the UK borrower are secured by the accounts receivable, inventory, and cash and cash equivalents of the UK borrower. The obligations of the Austrian and German borrowers are secured by the accounts receivable of the Austrian and German borrowers, respectively.

Hexcel is required to maintain various financial ratios throughout the term of the credit facility. These financial covenants set maximum values for the Company's leverage (the ratios of total and senior debt to EBITDA), fixed charge coverage (the ratio of EBITDA, less capital expenditures and cash taxes, plus cash dividends, to the sum of cash interest and scheduled debt amortization), and capital expenditures (not to exceed specified annual expenditures). The credit facility also contains limitations on, among other things, incurring debt, granting liens, making investments, making restricted payments, entering into transactions with affiliates and prepaying subordinated debt. The credit facility also contains other customary terms relating to, among other things, representations and warranties, additional covenants and events of default.

On March 19, 2003, the Company borrowed \$13.0 million and issued letters of credit totaling approximately \$25.8 million under the new senior secured credit facility.

CLASSIFICATION OF DEBT AND CAPITAL LEASE OBLIGATIONS AS OF DECEMBER 31, 2002

As of December 31, 2002, the Company had a scheduled debt obligation due August 1, 2003, which, if made, would cause the Company to violate one or more financial covenants in the Company's existing debt agreements. The Company also required an amendment of its existing senior credit facility before the end of the first quarter of 2003 to maintain compliance with the financial covenants under that facility. As the anticipated refinancing of the Company's capital structure was not completed as of February 28, 2003 (the 2002 financial statement issuance date) and the Company had not obtained an amendment of the aforementioned financial covenants, all debt and capital lease obligations had been classified as current at December 31, 2002.

As a result of the March 19, 2003 refinancing transactions, the uncertainties surrounding the Company's ability to meet its scheduled 2003 debt maturities and comply with its debt covenants have been mitigated. Management

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

believes the Company will comply with the new debt covenants and has adequate liquidity available to finance operations beyond December 31, 2003. Also as a result of the refinancing transactions, substantially all of the Company's debt will be reclassified to long-term at March 31, 2003 reflecting the new scheduled debt maturities. The next significant scheduled

4

debt maturity will not occur until 2008, with annual debt and capital lease maturities ranging between \$6.2 million and \$12.5 million prior to 2008. Refer to Note 24, "Subsequent Event - Pro Forma Consolidated Balance Sheet (Unaudited)."

NARRATIVE DESCRIPTION OF BUSINESS AND BUSINESS SEGMENTS

Hexcel is a vertically integrated manufacturer of products within a single industry: Advanced Structural Materials. Hexcel's advanced structural materials business is organized around three strategic business segments: Reinforcements, Composites and Structures.

As part of the Company's November 2001 restructuring program, effective January 1, 2002, management responsibility for the Company's carbon fiber product line was transferred to the Composites business segment. As a result of this change in management responsibilities, the Company changed its business segment reporting to reflect the reclassification of this product line from the Reinforcements segment to the Composites segment. The Company also changed the names of its business segments to Reinforcements, Composites and Structures. The Company's three business segments were previously known as Reinforcement Products, Composite Materials and Engineered Products. Results for the years ended December 31, 2001 and 2000 have been reclassified for comparative purposes.

REINFORCEMENTS

The Reinforcements business segment manufactures and markets industrial fabrics and other specialty reinforcement products. The following table identifies the Reinforcements business segment's principal products and examples of the primary end-uses:

BUSINESS SEGMENT	PRODUCTS	PRIMARY END-USE
REINFORCEMENTS	Industrial Fabrics and Specialty Reinforcements	<ul style="list-style-type: none"> - Structural materials/components used in aerospace, wind energy, automotive recreation and other industrial applications - Raw materials for prepregs and honeycomb - Soft body armor and other security applications - Electronic applications, including wiring board substrates - Window screens and blinds - Civil engineering and construction

INDUSTRIAL FABRICS AND SPECIALTY REINFORCEMENTS: Industrial fabrics and specialty reinforcements are made from a variety of fibers, including several types of fiberglass as well as carbon, aramid, quartz, ceramic and other specialty fibers. These reinforcement products are sold to third-party customers for use in a wide range of applications, including a variety of structural

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

materials and components used in aerospace, wind energy, marine, recreation and other industrial applications, soft body armor and other security products, printed wiring boards, window screens and other architectural products. They are also used internally to manufacture prepregs and other composite materials.

REINFORCEMENTS

KEY CUSTOMERS	MANUFACTURING FACILITIES
Armor Holdings	Anderson, SC
Composites One	Decines, France
Cytec Engineered Materials	Les Avenieres, France
DHB Industries	Seguin, TX
Endicott Interconnect Technologies	Statesville, NC
Isola Laminate Systems	Washington, GA
Nelco	
Piad	
Second Chance Body Armor	

5

The Reinforcements business segment's net sales to third party customers were \$217.9 million in 2002, \$245.7 million in 2001 and \$331.7 million in 2000, which represented approximately 26%, 25% and 32% of the Company's net sales, respectively. In addition, approximately 24%, 27% and 20% of the Company's total production of reinforcement products was used internally to manufacture composite materials in 2002, 2001 and 2000, respectively.

The Company also has equity ownership interests in three joint ventures in the Reinforcements business segment: a 43.6% share in Interglas Technologies AG ("Interglas"), headquartered in Germany; a 33.3% share in Asahi-Schwebel Co., Ltd. ("Asahi-Schwebel"), headquartered in Japan, which in turn owns interests in two joint ventures in Taiwan - a 50% interest in Nittobo Asahi Glass and 51% interest in Asahi-Schwebel Taiwan; and a 50% share in Clark-Schwebel Tech-Fab Company ("CS Tech-Fab"), headquartered in the United States. Interglas and Asahi-Schwebel are fiberglass fabric producers serving the European and Asian electronics and telecommunications industries. CS Tech-Fab manufactures non-woven reinforcement materials for roofing, construction, sail cloth and other specialty applications.

In 2002, the Company agreed with its Asian Electronics venture partner to restructure its minority interest in Asahi-Schwebel. Under the terms of the agreement, the Company reduced its ownership interest in the joint venture from 43.3% to 33.3% and received cash proceeds of \$10.0 million. The agreement also included, among other matters, a put option in favor of the Company to sell and a call option in favor of the Company's joint venture partner to purchase the Company's remaining ownership interest in the joint venture for \$23.0 million. The options are simultaneously effective for a six-month period beginning July 1, 2003.

COMPOSITES

The Composites business segment manufactures and markets carbon fibers, prepregs, structural adhesives, honeycomb, specially machined honeycomb parts and composite panels, fiber reinforced thermoplastics, sheet moulding compounds, polyurethane systems and laminates.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The following table identifies the Composites business segment's principal products and examples of the primary end-uses:

BUSINESS SEGMENT	PRODUCTS	PRIMARY END-USE
COMPOSITES	Carbon Fibers	<ul style="list-style-type: none"> - Raw materials for industrial fabrics - Filament winding for various space, industrial applications
	Prepregs	<ul style="list-style-type: none"> - Composite structures - Commercial and military aircraft comp - Satellites and launchers - Aeroengines - Wind turbine rotor blades - Yachts, trains and motor racing vehic - Skis, snowboards, hockey sticks, te and bicycles
	Structural Adhesives	<ul style="list-style-type: none"> - Bonding of metals, honeycomb an materials - Aerospace, ground transportation an applications
	Honeycomb, Honeycomb Parts & Composite Panels	<ul style="list-style-type: none"> - Composite structures and interiors - Semi-finished components used in: Helicopter blades Aircraft surfaces (flaps, wing tips and fairings) High-speed ferries, truck and train Automotive components and impact pr

CARBON FIBERS: Carbon fibers are manufactured for sale to third party customers and for use by Hexcel in manufacturing certain reinforcements and composite materials. Carbon fibers are woven into carbon fabrics, used as reinforcement in conjunction with a resin matrix to produce pre-impregnated composite materials (referred to as "prepregs") and used in filament winding and advanced fiber placement to produce various other composite materials. Key product applications

6

include structural components for commercial and military aircraft and space launch vehicles, as well as certain other applications such as recreational equipment.

PREPREGS: HexPly(R) prepregs are manufactured for sale to third party customers and for use in manufacturing composite laminates and monolithic structures, including finished components for aircraft structures and interiors. Prepregs are manufactured by combining high performance reinforcement fabrics or unidirectional fibers with a resin matrix to form a composite material with exceptional structural properties not present in either of the constituent materials. Industrial fabrics used in the manufacture of prepregs include glass, carbon, aramid, quartz, ceramic, polyethylene and other specialty reinforcements. Resin matrices include bismaleimide, cyanate ester, epoxy, phenolic, polyester, polyimide and other specialty resins.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

OTHER FIBER-REINFORCED MATRIX MATERIALS: New fiber reinforced matrix developments include HexMC(R), a carbon fiber/epoxy sheet moulding compound that enables small to medium sized composite components to be mass produced. Hexcel's HexFIT(TM) film infusion material is a product that combines resin films and dry fiber reinforcements to save lay-up time in production and enables large contoured composite structures, such as wind turbine blades, to be manufactured. Resin Film Infusion and Resin Transfer Moulding products are enabling quality aerospace components to be manufactured using highly cost-effective processes.

STRUCTURAL ADHESIVES: Hexcel designs and markets a comprehensive range of Redux(R) film adhesives and a newly launched range of Redux paste adhesives. These structural adhesives, which bond metal to metal, composites and honeycomb structures, are widely used in the aerospace industry and for many industrial applications.

HONEYCOMB, HONEYCOMB PARTS AND COMPOSITE PANELS: HexWeb(R) honeycomb is a unique, lightweight, cellular structure generally composed of hexagonal nested cells. The product is similar in appearance to a cross-sectional slice of a beehive. Honeycomb is primarily used as a lightweight core material and is a highly efficient energy absorber. When sandwiched between composite or metallic facing skins, honeycomb significantly increases the stiffness of the structure, while adding very little weight.

Hexcel produces honeycomb from a number of metallic and non-metallic materials. Most metallic honeycomb is made from aluminum and is available in a selection of alloys, cell sizes and dimensions. Non-metallic honeycomb materials include fiberglass, carbon, thermoplastics, non-flammable aramid papers and other specialty materials.

Hexcel sells honeycomb as standard blocks and in slices cut from a block. Honeycomb is also supplied as sandwich panels, with facing skins bonded to either side of the core material. Hexcel also possesses advanced processing capabilities that enable the Company to design and manufacture complex fabricated honeycomb parts and bonded assemblies to meet customer specifications.

Aerospace is the largest market for honeycomb products. Hexcel also sells honeycomb for non-aerospace applications including high-speed trains and mass transit vehicles, automotive parts, energy absorption products, marine vessel compartments, portable shelters, business machine cabinets and other industrial uses. In addition, the Company produces honeycomb for its Structures business segment for use in manufacturing finished parts for airframe Original Equipment Manufacturers (OEMs).

7

COMPOSITES

KEY CUSTOMERS	MANUFACTURING FACILITIES
Alenia	Burlington, WA
Alliant Techsystems	Casa Grande, AZ
BAE Systems	Dagneux, France
Boeing	Decatur, AL
Bombardier	Duxford, England
CFAN	Linz, Austria
Cytec Engineered Materials	Livermore, CA

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Durakon Industries	Parla, Spain
EADS (Airbus)	Pottsville, PA
Embraer-Empresa	Salt Lake City, UT
GKN	Welkenraedt, Belgium
Lockheed Martin	
Northrop Grumman	
United Technologies	
Vestas	

The Company operates sales offices in the United States located in Bedford, Texas; Danbury, Connecticut; Dublin, California; Redmond, Washington; and Novi, Michigan. In Europe, the Company operates sales offices at its manufacturing sites as well as Pasching, Austria; Stade, Germany; and Saronno, Italy. The Company also operates sales offices in Melbourne, Australia; Shanghai, China; and Sao Paulo, Brazil.

The Composites business segment's net sales to third party customers were \$532.4 million in 2002, \$638.8 million in 2001 and \$594.5 million in 2000, which represented approximately 62%, 63% and 56% of the Company's net sales, respectively. Net sales for Composites are highly dependent upon commercial aircraft build rates as further discussed under the captions "Significant Customers," "Markets" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." In addition, about 3% of the Company's total production of composite materials is sold internally to the Reinforcements and Structures business units.

The Company also owns a 45% equity interest in DIC-Hexcel Limited, a joint venture with Dainippon Ink and Chemicals, Inc. This Composites joint venture is located in Komatsu, Japan, and produces and sells prepregs, honeycomb and decorative laminates using technology licensed from Hexcel and Dainippon Ink and Chemicals, Inc.

STRUCTURES

The Structures business segment manufactures and markets composite structures primarily for use in the aerospace industry. Composite structures are manufactured from a variety of composite and other materials, including prepregs, honeycomb and structural adhesives, using such manufacturing processes as autoclave processing, multi-axis numerically controlled machining, press laminating, heat forming and other composite manufacturing techniques. Composite structures include such items as flap track fairings, engine cowls, wing panels and other aircraft components.

The following table identifies the Structures business segment's principal products and examples of the primary end-uses:

BUSINESS SEGMENT	PRODUCTS	PRIMARY END-USE
STRUCTURES	Composite Structures	- Aircraft structures and finished aircraft component Flap track fairings Engine cowls Wing panels Flight deck panels Door liners

The Structures business segment's net sales to third party customers were \$100.5 million in 2002, \$124.9 million in 2001 and \$129.5 million in 2000, which represented approximately 12% of the Company's net sales in each year.

In April 2000, the Company sold its Bellingham aircraft interiors business. This business was responsible for the design, engineering and manufacture of commercial aircraft interior components and systems for airline refurbishment applications. After giving effect to the disposition of the Bellingham aircraft interiors business as if the transaction occurred at the beginning of 2000, net sales would have been \$110.6 million in 2000.

STRUCTURES

KEY CUSTOMERS	MANUFACTURING FACILITY
Boeing EADS (Airbus) Mitsubishi Heavy Industries Raytheon Company	Kent, WA

In addition, Hexcel has equity ownership interests in two joint ventures in the Structures business unit: BHA Aero Composite Parts Co., Ltd. ("BHA Aero") and Asian Composites Manufacturing Sdn. Bhd. ("Asian Composites"). In 1999, Hexcel formed BHA Aero with Boeing and Aviation Industries of China (now known as China Aviation Industry Corporation I) to manufacture composite parts for secondary structures and interior applications for commercial aircraft. Hexcel has a 33% equity ownership interest in this joint venture, which is located in Tianjin, China. Also in 1999, Hexcel formed Asian Composites with Boeing, Sime Link Sdn. Bhd., and Malaysia Helicopter Services Bhd. (now known as Naluri Berhadto), to manufacture composite parts for secondary structures for commercial aircraft. Hexcel has a 25% equity ownership interest in this joint venture, which is located in Alor Setar, Malaysia. Asian Composites began manufacturing and shipping products during the second half of 2001, while BHA Aero began shipping composite structures in the first half of 2002.

FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

Financial information and further discussion of Hexcel's business segments and geographic areas, including external sales and long-lived assets, are contained throughout the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 19 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A.

SIGNIFICANT CUSTOMERS

Approximately 22%, 23% and 20% of Hexcel's 2002, 2001 and 2000 net sales, respectively, were to The Boeing Company ("Boeing") and related subcontractors. Of the 22% of sales to Boeing and its subcontractors in 2002, 17% and 5% related to commercial aerospace and space and defense market applications, respectively. Approximately 15%, 16% and 13% of Hexcel's 2002, 2001 and 2000 net sales, respectively, were to EADS, including the business division Airbus Industrie ("Airbus"), and its subcontractors. Of the 15% of sales to EADS and its subcontractors in 2002, 13% and 2% related to commercial aerospace and space and

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

defense market applications, respectively.

9

MARKETS

Hexcel's products are sold for a broad range of end uses. The following tables summarize net sales to third-party customers by market and by geography for each of the three years ended December 31:

	2002	2001	2000
<hr/>			
NET SALES BY MARKET			
Commercial aerospace	46%	53%	49%
Industrial	30	25	22
Space and defense	17	14	12
Electronics	7	8	17
<hr/>			
Total	100%	100%	100%
<hr/>			
NET SALES BY GEOGRAPHY (a)			
United States	50%	52%	57%
U.S. exports	6	7	5
International	44	41	38
<hr/>			
Total	100%	100%	100%
<hr/>			

(a) Net Sales by Geography were based on the location in which the sale was manufactured.

COMMERCIAL AEROSPACE

Historically, the commercial aerospace industry has led the development of applications for advanced structural materials and components because it has the strongest need for the performance properties of these materials and is well positioned to maximize the economic benefits from their use. Accordingly, the demand for advanced structural material products is closely correlated to the demand for commercial aircraft.

Commercial aerospace activity fluctuates in relation to two principal factors. First, the number of revenue passenger miles flown by the airlines affects the size of the airline fleets and generally follows the level of overall economic activity. The second factor, which is less sensitive to the general economy, is the replacement and retrofit rates for existing aircraft. These rates, resulting mainly from obsolescence, are determined in part by the regulatory requirements established by various civil aviation authorities as well as public concern regarding aircraft age, safety and noise. These rates may also be affected by the desire of the various airlines for higher payloads and more fuel-efficient aircraft, which in turn is influenced by the price of fuel.

Reflecting the demand factors noted above, the number of commercial aircraft delivered by Boeing and Airbus declined by 48% from 1992 to 1995. At the lowest point during this period, Boeing and Airbus reported combined deliveries of 380 aircraft. Beginning in 1996, however, aircraft deliveries by Boeing and Airbus began to rise, growing to a combined record peak of 914

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

aircraft in 1999. Combined aircraft deliveries declined to 684 aircraft in 2002.

In light of the tragic events that occurred on September 11, 2001 and the negative impact on the commercial aerospace market, Boeing and Airbus significantly reduced their build rates for 2002 and 2003 from rates previously expected. Build rates are the number of aircraft the aircraft manufacturer plans to produce. They may differ from deliveries when the manufacturer is increasing or reducing its inventories of finished aircraft. This often happens when there are significant increases or reductions in demand for commercial aircraft. The impact of these changes on Hexcel will be influenced by two factors: the mix of aircraft produced and the inventory supply chain effects of reduced aircraft production. The dollar value of Hexcel's materials varies by aircraft type - twin aisle aircraft use more Hexcel materials and products than narrow body aircraft and newer designed aircraft use more Hexcel materials than older generations. On average, Hexcel delivers products into the supply chain about six months prior to aircraft delivery. Depending on the product, orders placed with Hexcel are received anywhere between one and eighteen months prior to delivery of the aircraft to the customer. With the impact of the changes in demand for commercial aircraft in 2001, our commercial aerospace revenues declined approximately 27% in 2002 compared with 2001.

10

Set forth below are historical deliveries as published by Boeing and Airbus:

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Boeing (including McDonnell Douglas)	572	409	312	256	271	375	563	620	491	527	380
Airbus	157	138	123	124	126	182	229	294	311	325	300
Total	729	547	435	380	397	557	792	914	802	852	680

INDUSTRIAL MARKETS

Hexcel has focused its participation in industrial markets in areas where the application of advanced structural material technology offers significant benefits to the end user. As a result, the Company has chosen to focus on select opportunities where high performance is the key product criterion. Future opportunities and growth depend primarily upon the success of the individual programs and industries in which the Company has elected to participate. Within industrial markets, key applications include surface transportation (automobiles, mass transit and high-speed rail and marine applications), wind energy, soft body armor, recreational equipment (i.e. snowboards, tennis rackets, hockey sticks and bicycles) and civil engineering. Hexcel's participation in these markets is a valuable complement to its commercial and military aerospace businesses, and the Company is committed to pursuing the utilization of advanced structural material technology in its industrial markets.

SPACE AND DEFENSE

The space and defense markets have historically been innovators in and sources of significant demand for advanced structural materials. The aggregate demand by space and defense customers is primarily a function of military

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

aircraft procurement by the United States and certain European governments, that utilize advanced structural materials. The Company is currently qualified to supply materials to a broad range of military aircraft and helicopter programs. These programs include the F/A-18E/F Hornet, the F-22 Raptor, and the Eurofighter/Typhoon, as well as the C-17, the V-22 Osprey tiltrotor aircraft, and the Tiger and NH90 helicopters. In addition, there are new programs in development such as the RAH-66 Comanche, the Joint Strike Fighter and the A400M military transport that may enter production later in the decade. The benefits that the Company obtains from these programs will depend upon which ones are funded and the extent of such funding.

Contracts to supply materials for military and some commercial projects contain provisions for termination at the convenience of the U.S. government or the buyer. In the case of such a termination, Hexcel is entitled to recover reasonable costs incurred plus a provision for profit on the incurred costs. In addition, the Company is subject to U.S. government cost accounting standards in accordance with applicable Federal Acquisition Regulations.

ELECTRONICS

The Company is one of the largest producers of high-quality, lightweight fiberglass fabric substrates used in the fabrication of multilayer printed wiring boards, which are integral to most advanced electronic products, including computers, networking equipment, telecommunications equipment, advanced cable television equipment, and automotive equipment. In addition to its wholly-owned U.S. and European businesses, the Company has ownership positions in the Interglas and Asahi-Schwebel joint ventures. Interglas and Asahi-Schwebel are manufacturers of similar products in Europe, Japan and Southeast Asia.

Starting in the first quarter of 2001, the industry experienced a severe downturn, and a corresponding inventory correction began working its way through the supply chain significantly impacting demand for fiberglass fabric substrates. As the downturn continued through 2001, competition intensified for the business that remained and pricing pressure increased. Depressed conditions in this sector have continued through 2002 and into 2003. Meanwhile, import quotas limiting Asian imports of fiberglass fabrics into the United States expired at the end of 2001 and the migration of lower layer count printed wiring board production to Asia has continued. Given excess production capacity throughout the industry, pricing remains under pressure. With these continuing industry conditions, the Company sees no evidence of a near-term recovery in this market.

11

Further discussion of Hexcel's markets, including certain risks, uncertainties and other factors with respect to "forward-looking statements" about those markets, is contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

BACKLOG

In recent years, Hexcel's customers have increasingly demanded shorter order lead times and "just-in-time" delivery performance. While the Company has many multi-year contracts with its major aerospace customers, most of these contracts specify the proportion of the customers' requirements that will be supplied by the Company and the terms under which the sales will occur, not the specific quantities to be procured. The Company's electronic and industrial customers have always desired to order their requirements on as short a lead-time as possible. The Company has recognized that over the last few years the twelve-month order backlog is no longer a meaningful trend indicator and, as

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

a result, ceased monitoring it in the management of the business in 1999.

RAW MATERIALS AND PRODUCTION ACTIVITIES

Due to the vertically integrated nature of Hexcel's operations, the Company produces several materials used in the manufacture of certain industrial fabrics, composite materials and engineered products, as well as the polyacrylonitrile ("PAN") precursor material used in the manufacture of carbon fibers. Although the Company purchases most of the raw materials used in production from third parties, it consumed internally approximately 50% and 25% of its carbon fiber and industrial fabric production, respectively, in 2002. Several key materials are available from relatively few sources, and in many cases the cost of product qualification makes it impractical to develop multiple sources of supply. The unavailability of these materials, which the Company does not currently anticipate, could have a material adverse effect on the Company's consolidated results of operations.

Hexcel's production activities are generally based on a combination of "make-to-order" and "make-to-forecast" production requirements. The Company coordinates closely with key suppliers in an effort to avoid raw material shortages and excess inventories.

RESEARCH AND TECHNOLOGY; PATENTS AND KNOW-HOW

Hexcel's Research and Technology ("R&T") departments support the Company's businesses worldwide. Through R&T activities, the Company maintains expertise in chemical formulation and curatives, fabric forming and textile architectures, advanced composite structures, process engineering, application development, analysis and testing of composite materials, computational design, and other scientific disciplines related to the Company's worldwide business base. Additionally, Hexcel's R&T function performs a limited amount of contract research and development in the United States and Europe for strategically important customers and government agencies in other areas, such as carbon fiber, ceramics, high temperature polymers, advanced textiles, and composite structures manufacturing and testing.

Hexcel's products rely primarily on the Company's expertise in materials science, textiles, process engineering and polymer chemistry. Consistent with market demand, the Company has been placing more emphasis on cost effective product design and lean manufacturing in recent years. Towards this end, the Company has entered into formal and informal alliances, as well as licensing and teaming arrangements, with several customers, suppliers, external agencies and laboratories. The Company believes that it possesses unique capabilities to design, develop and manufacture composite materials and structures. The Company owns and maintains in excess of 100 patents worldwide, has licensed many key technologies, and has granted technology licenses and patent rights to several third parties in connection with joint ventures and joint development programs. It is the Company's policy to actively enforce its proprietary rights. The Company believes that the patents and know-how rights currently owned or licensed by the Company are adequate for the conduct of its business.

12

Hexcel spent \$14.7 million for research and technology in 2002, \$18.6 million in 2001 and \$21.2 million in 2000. These expenditures were expensed as incurred. Although the Company reduced its level of research and technology spending in 2002, it will continue to maintain its high standard of customer service and make strategic investments in research and technology, as it deems appropriate.

ENVIRONMENTAL MATTERS

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The Company is subject to federal, state and local laws and regulations designed to protect the environment and to regulate the discharge of materials into the environment. The Company believes that its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and of associated financial liability. To date, environmental control regulations have not had a significant adverse effect on the Company's overall operations. A discussion of environmental matters is contained in Item 3, "Legal Proceedings," and in Note 16 to the accompanying consolidated financial statements included in this Annual Report on Form 10-K/A.

SALES AND MARKETING

A staff of salaried market managers, product managers and salespeople sell and market Hexcel products directly to customers worldwide. The Company also uses independent distributors and manufacturer representatives for certain products, markets and regions.

COMPETITION

In the production and sale of advanced structural materials, Hexcel competes with numerous U.S. and international companies on a worldwide basis. The broad markets for the Company's products are highly competitive, and the Company has focused on both specific markets and specialty products within markets to obtain market share. In addition to competing directly with companies offering similar products, the Company competes with producers of substitute structural materials such as structural foam, wood, metal, and concrete. Depending upon the material and markets, relevant competitive factors include price, delivery, service, quality and product performance.

EMPLOYEES

As of December 31, 2002, Hexcel employed 4,245 full-time employees, 2,448 in the United States and 1,797 internationally. The number of full-time employees has declined from 5,376 and 6,072 as of December 31, 2001 and 2000, respectively, primarily due to Hexcel's business consolidation and restructuring programs. The Company's business consolidation and restructuring programs included the right-sizing of the Company in response to the forecasted reductions in commercial aircraft production, the continued weakness in the electronics market and the closure of manufacturing facilities. For further discussion, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and to Note 4 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A.

OTHER INFORMATION

The Company's internet address is www.hexcel.com. The Company makes available, free of charge through its internet website, its Form 10-K's, 10-Q's and 8-K's, and any amendments to these forms, as soon as reasonably practicable after filing with the Securities and Exchange Commission.

ITEM 2. PROPERTIES

Hexcel owns and leases manufacturing facilities and sales offices located throughout the United States and in other countries, as noted below. The corporate offices and principal corporate support activities for the Company are located in leased facilities in Stamford, Connecticut. The Company's research and technology administration and principal laboratories are located in Dublin, California; Duxford, United Kingdom; and Les Avenieres, France.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The following table lists the manufacturing facilities of Hexcel by geographic location, approximate square footage, and principal products manufactured. This table does not include manufacturing facilities owned by entities in which the Company has a joint venture interest.

MANUFACTURING FACILITIES

Facility Location -----	Approximate Square Footage -----	Business Segment -----	Principal Products -----
United States:			
Anderson, South Carolina	432,000	Reinforcements	Industrial Fabrics
Burlington, Washington	73,000	Composites	Honeycomb Parts
Casa Grande, Arizona	307,000	Composites	Honeycomb and Honeycom
Decatur, Alabama	159,000	Composites	PAN Precursor (used to
Kent, Washington	573,000	Structures	Composite Structures
Livermore, California	141,000	Composites	Prepregs
Pottsville, Pennsylvania	134,000	Composites	Honeycomb Parts
Salt Lake City, Utah	457,000	Composites	Carbon Fibers; Prepreg
Seguin, Texas	204,000	Reinforcements	Industrial Fabrics; Sp
Statesville, North Carolina	553,000	Reinforcements	Electronic Fabrics; In
Washington, Georgia	160,000	Reinforcements	Electronic Fabrics; In
International:			
Dagneux, France	130,000	Composites	Prepregs
Decines, France	90,000	Reinforcements	Industrial Fabrics; Sp
Duxford, United Kingdom	440,000	Composites	Prepregs; Honeycomb an
Les Avenieres, France	411,000	Reinforcements	Electronic Fabrics; In Specialty Fabrics
Linz, Austria	163,000	Composites	Prepregs
Parla, Spain	43,000	Composites	Prepregs
Welkenraedt, Belgium	223,000	Composites	Honeycomb and Honeycom

Hexcel leases the facilities located in Anderson, South Carolina; Washington, Georgia; Statesville, North Carolina; and the land on which the Burlington, Washington, facility is located. The Company also leases portions of the facilities located in Casa Grande, Arizona and Les Avenieres, France. The remaining facilities are owned by the Company.

At December 31, 2002, the facilities located in Burlington, Washington; Casa Grande, Arizona; Decatur, Alabama; Dublin, California; Kent, Washington; Livermore, California; Pottsville, Pennsylvania; Salt Lake City, Utah; and Seguin, Texas were subject to mortgages in support of the bank syndicate that provided the Company with its then existing senior credit facility. In connection with the Company's refinancing of its capital structure on March 19, 2003, the then existing senior credit facility was repaid. Mortgages on these same facilities were established in support of the collateral agent for the holders of the Company's new senior secured notes issued March 19, 2003. Refer to "Significant Transactions - Refinancing of the Company's Capital Structure" under Item 1 - Business, of this Annual Report on Form 10-K/A.

ITEM 3. LEGAL PROCEEDINGS

Hexcel is involved in litigation, investigations and claims arising out of

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

the normal conduct of its business, including those relating to commercial transactions, as well as to environmental, employment, health and safety matters. The Company estimates and accrues its liabilities resulting from such matters based on a variety of factors, including outstanding legal claims and proposed settlements; assessments by internal and external counsel of pending or threatened litigation; and assessments by environmental engineers and consultants of potential environmental liabilities and remediation costs. Such estimates exclude counterclaims against other third parties and 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.

The Company believes that it has meritorious defenses and is taking appropriate actions against such matters. While it is impossible to ascertain the ultimate legal and financial liability with respect to certain contingent liabilities and claims, the Company believes, based upon its examination of currently available information, its 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 its existing insurance coverage and amounts already provided for, will not have a material adverse impact on the Company's consolidated results of operations, financial position or cash flows.

ENVIRONMENTAL CLAIMS AND PROCEEDINGS

The Company is subject to numerous federal, state, local and foreign laws and regulations that impose strict requirements for the control and abatement of air, water and soil pollutants and the manufacturing, storage, handling and disposal of hazardous substances and waste. These laws and regulations include the Federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA" or "Superfund"), the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act, and analogous state laws and regulations. Regulatory standards under these environmental laws and regulations have tended to become increasingly stringent over time.

Hexcel has been named as a potentially responsible party with respect to several hazardous waste disposal sites that it does not own or possess, which are included on the Superfund National Priority List of the U.S. Environmental Protection Agency or on equivalent lists of various state governments. Because CERCLA provides for joint and several liability, the Company could be responsible for all remediation costs at such sites, even if it is one of many potentially responsible parties ("PRPs"). The Company believes, based on the amount and the nature of its waste, and the number of other financially viable PRPs, that its liability in connection with such matters will not be material.

Pursuant to the New Jersey Industrial Sites Recovery Act, Hexcel signed an administrative consent order and later entered into a Remediation Agreement to pay for the environmental remediation of a manufacturing facility it owns and formerly operated in Lodi, New Jersey. The ultimate cost of remediating the Lodi site will depend on developing circumstances.

Hexcel was 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 Company's Kent, Washington, site by the U.S. Environmental Protection Agency. Under the terms of the cost-sharing agreement, the Company was 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.

At its Livermore, California facility, Hexcel has received a series of notices of violation of air quality standards from the Bay Area Air Quality Management District. Hexcel has investigated and corrected the issues, and has cooperated

with the District.

The Company's estimate of its liability as a PRP, of the remaining costs associated with its responsibility to remediate the Lodi, New Jersey, and Kent, Washington sites and for any fines and penalties that may be assessed relating to the Livermore, California notices of violation is accrued in its consolidated balance sheets.

15

OTHER PROCEEDINGS

Hexcel is aware of a grand jury investigation being conducted by the Antitrust Division of the United States Department of Justice with respect to the carbon fiber and carbon fiber prepreg industries. The Department of Justice appears to be reviewing the pricing of all manufacturers of carbon fiber and carbon fiber prepreg since 1993. The Company, along with other manufacturers of these products, has received a grand jury subpoena requiring production of documents to the Department of Justice. Toho Tenax Co. Ltd., one of their subsidiaries and one of their employees have been indicted for obstruction of justice; Toho and its subsidiary pleaded guilty to obstruction of justice and received a combined fine of \$500,000. No other indictments have been issued in the case to date. The Company is not in a position to predict the direction or outcome of the investigation; however, it is cooperating with the Department of Justice.

In 1999, Hexcel was joined in a class action lawsuit alleging antitrust violations in the sale of carbon fiber, carbon fiber industrial fabrics and carbon fiber prepreg (Thomas & Thomas Rodmakers, Inc. et. al. v. Newport Adhesives and Composites, Inc., et. al., Amended and Consolidated Class Action Complaint filed October 4, 1999, United States District Court, Central District of California, Western Division, CV-99-07796-GHK (CTx)). The Company was one of many manufacturers joined in the lawsuit, which was spawned from the Department of Justice investigation. The Court has granted the Plaintiff's motion to certify the class. Discovery is continuing. The Company is not in a position to predict the outcome of the lawsuit, but believes that the lawsuit is without merit as to the Company.

Of the eleven companies that have opted out of the class in the Thomas & Thomas Rodmakers, Inc. case, one, Horizon Sports Technologies, Inc., has filed a case on its own behalf, with similar allegations (Horizon Sports Technologies, Inc., v. Newport Adhesives and Composites, Inc., et. al., First Amended Complaint filed October 15, 2002, United States District Court, Central District of California, Southern Division, SACV 02-911 DOC (MLGX)). The Company is not in a position to predict the outcome of the lawsuit, but believes that the lawsuit is without merit as to the Company.

The Company has also been joined as a party in numerous class action lawsuits in California and in Massachusetts spawned by the Thomas & Thomas Rodmakers, Inc. class action. These actions also allege antitrust violations and are brought on behalf of purchasers located in California and in Massachusetts, respectively, who indirectly purchased carbon fiber products. The California cases have been ordered to be coordinated in the Superior Court for the County of San Francisco and are currently referred to as Carbon Fibers Cases I, II and III, Judicial Council Coordinator Proceeding Numbers 4212, 4216 and 4222. The California cases are Lazio v. Amoco Polymers Inc., et.al., filed August 21, 2000; Proiette v. Newport Adhesives and Composite, Inc. et. al., filed September 12, 2001; Simon v. Newport Adhesives and Composite, Inc. et. al., filed September 21, 2001; Badal v. Newport Adhesives and Composite, Inc. et.al., filed September 26, 2001; Yolles v. Newport Adhesives and Composite, Inc. et.al., filed September 26, 2001; Regier v. Newport Adhesives and Composite, Inc.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

et.al., filed October 2, 2001; and Connolly v. Newport Adhesives and Composite, Inc. et.al., filed October 4, 2001; Elisa Langsam v Newport Adhesives and Composites, Inc, et al., filed October 4, 2001; Jubal Delong et al. v Amoco Polymers, Inc. et al., filed October 26, 2001; and Louis V. Ambrosio v Amoco Polymers, Inc. et. al., filed October 25, 2001. The Massachusetts case is Ostroff v. Newport Adhesives and Composites, Inc. et. al., filed June 7, 2002 in the Superior Court Department of the Trial Court of Middlesex, Massachusetts, Civil Action No. 02-2385. The Company is not in a position to predict the outcome of these lawsuits, but believes that the lawsuits are without merit as to the Company.

In 1999, a QUI TAM case was filed under seal by executives of Horizon Sports Technologies, Inc. alleging that Boeing and other prime contractors to the United States Government and certain carbon fiber and carbon fiber prepreg manufacturers, including the Company, submitted claims for payment to the U.S. Government which were false or fraudulent because the defendants knew of the alleged conspiracy to fix prices of carbon fiber and carbon prepreg described in the above cases (Beck, on behalf of the United States of America, v. Boeing Defense and Space Group, Inc., et. al., filed July 27, 1999, in the United States District Court for the Southern District of California, Civil Action No. 99 CV 1557 JM JAH). The case was unsealed in 2002 when the U.S. advised that it was unable to decide whether to intervene in the case based on the information available to it at that time and the

16

Relators served the Company and other defendants. The Company is not in a position to predict the outcome of the lawsuit, but believes that the lawsuit is without merit as to the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

17

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Hexcel common stock is traded on the New York and Pacific Stock Exchanges. The range of high and low sales prices of Hexcel common stock on the New York Stock Exchange Composite Tape is contained in Note 23 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A and is incorporated herein by reference.

Hexcel did not declare or pay any dividends in 2002, 2001 or 2000. The payment of dividends is generally prohibited under the terms of certain of the Company's debt agreements.

On February 25, 2003, there were 1,363 holders of record of Hexcel common stock.

ITEM 6. SELECTED FINANCIAL DATA

The information required by Item 6 is contained on page 33 of this Annual Report on Form 10-K/A under the caption "Selected Financial Data" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

OF OPERATIONS

The information required by Item 7 is contained on pages 34 to 60 of this Annual Report on Form 10-K/A under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A is contained under the heading "Market Risks" on pages 56 to 58 of this Annual Report on Form 10-K/A and is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is contained on pages 61 to 120 of this Annual Report on Form 10-K/A under "Consolidated Financial Statements and Supplementary Data" and is incorporated herein by reference. The Report of the Independent Accountants is contained on page 63 of this Annual Report on Form 10-K/A under the caption "Report of Independent Accountants" and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

18

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT:

The information required by Item 10 will be contained in Hexcel's definitive proxy statement for the 2003 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2002. Such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be contained in Hexcel's definitive proxy statement for the 2003 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2002. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 will be contained in Hexcel's definitive proxy statement for the 2003 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2002. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 will be contained in Hexcel's definitive proxy statement for the 2003 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended December 31, 2002. Such information is

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

As of a date within 90 days of the filing date of this report, the Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-14 and Rule 15d-14 under the Securities Exchange Act of 1934). Based on their evaluation, they have concluded that the Company's disclosure controls and procedures are effective to ensure that material information relating to the Company, including its consolidated subsidiaries, would be made known to them, so as to be reflected in periodic reports that the Company files or submits under the Securities and Exchange Act of 1934.

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

19

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. 1. FINANCIAL STATEMENTS

- i. The consolidated financial statements of Hexcel, the notes thereto, and the Report of Independent Accountants are listed on page 61 of this Annual Report on Form 10-K/A and are incorporated herein by reference.
- ii. The financial statements of BHA Aero Composite Parts Co. Ltd., the notes thereto, and the Independent Auditors' Report are listed on page 61 of this Annual Report on Form 10-K/A and are incorporated herein by reference.

2. FINANCIAL STATEMENT SCHEDULES

The financial statement schedule and the Report of Independent Accountants required by Item 15(a)(2) are listed on page 61 of this Annual Report on Form 10-K and are incorporated herein by reference.

b. REPORTS ON FORM 8-K

Current Report on Form 8-K dated October 23, 2002, relating to third quarter of 2002 financial results.

Current Report on Form 8-K dated December 20, 2002, relating to announcement of signed agreements to issue equity securities and planned refinancing of existing senior credit facility.

c. EXHIBITS

EXHIBIT NO.	DESCRIPTION
-----	-----
2.1	Asset Purchase Agreement dated March 31, 2000 between Hexcel Corporation and Britax Cabin Interiors, Inc. (incorporated herein by reference to Exhibit 2.1 to Hexcel's Current Report on Form

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

8-K dated May 10, 2000).

- 3.1 Restated Certificate of Incorporation of Hexcel Corporation (incorporated herein by reference to Exhibit 1 to Hexcel's Registration Statement on Form 8-A dated July 9, 1996, Registration No. 1-08472).
 - 3.2 Certificate of Amendment of the Restated Certificate of Incorporation of Hexcel Corporation.
 - 3.3 Amended and Restated Bylaws of Hexcel Corporation.
 - 4.1 Indenture dated as of January 21, 1999 between Hexcel Corporation and The Bank of New York, as trustee, relating to the issuance of the 93/4% Senior Subordinated Notes due 2009 (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 (No. 333-71601), filed on February 2, 1999).
 - 4.2 Indenture dated as of July 24, 1996 between Hexcel Corporation and First Trust of California, National Association, as trustee, relating to the 7% Convertible Subordinated Notes due 2003 of the Company (incorporated herein by reference to Exhibit 4 to Hexcel's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
 - 4.3 Indenture dated as of August 1, 1986 between Hexcel and the Bank of California, N.A., as trustee, relating to the 7% Convertible Subordinated Notes due 2011 of the Company (incorporated herein by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
- 20
- 4.3(a) Instrument of Resignation, Appointment and Acceptance, dated as of October 1, 1993 (incorporated herein by reference to Exhibit 4.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
 - 4.4 Indenture, dated as of March 19, 2003 among Hexcel Corporation, the Guarantors named therein and Wells Fargo Bank Minnesota, National Association, as trustee, relating to the 9.875% Senior Secured Notes due 2008.
 - 4.5 Certificate of Designation of Series A Convertible Preferred Stock of Hexcel Corporation.
 - 4.6 Certificate of Designation of Series B Convertible Preferred Stock of Hexcel Corporation.
 - 10.1 Credit and Guaranty Agreement, dated as of March 19, 2003, by and among Hexcel Corporation, Hexcel Composites Limited, Hexcel Composites GmbH (Austria), Hexcel Composites GmbH (Germany), the Guarantors named therein, the lenders from time to time party thereto, Fleet Capital Corporation, as Administrative Agent, Fleet National Bank, London U.K. branch, trading as FleetBoston Financial, as Fronting Bank and Issuing Bank, Fleet National Bank, as Issuing Bank, and Fleet Securities Inc., as Lead Arranger.
 - 10.2 Security Agreement, dated as of March 19, 2003, by and among

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Hexcel Corporation, Clark-Schwebel Corporation, Hexcel Pottsville Corporation, Clark-Schwebel Holding Corp., CS Tech-Fab Holding, Inc. and Fleet Capital Corporation, as Administrative Agent.

- 10.3* Hexcel Corporation 2003 Incentive Stock Plan.
- 10.4* Hexcel Corporation Incentive Stock Plan as amended and restated January 30, 1997 (incorporated herein by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8, Registration No. 333-36163).
- 10.4(a)* Hexcel Corporation Incentive Stock Plan as amended and restated January 30, 1997 and further amended December 10, 1997 (incorporated herein by reference to Exhibit 10.5(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
- 10.4(b)* Hexcel Corporation Incentive Stock Plan, as amended and restated on January 30, 1997, and further amended on December 10, 1997 and March 25, 1999 (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 filed on July 26, 1999).
- 10.4(c)* Hexcel Corporation Incentive Stock Plan, as amended and restated on January 30, 1997, and further amended on December 10, 1997, March 25, 1999 and December 2, 1999 (incorporated by reference to Exhibit 10.3(c) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.4(d)* Hexcel Corporation Incentive Stock Plan, as amended and restated on February 3, 2000 (incorporated herein by reference to Annex A of the Company's Proxy Statement dated March 31, 2000).
- 10.4(e)* Hexcel Corporation Incentive Stock Plan, as amended and restated on December 19, 2000 (incorporated herein by reference to Exhibit 10.3(e) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.4(f)* Hexcel Corporation Incentive Stock Plan, as amended and restated on December 19, 2000 and further amended on January 10, 2002 (incorporated herein by reference to Exhibit 10.3(f) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 21
- 10.5* Hexcel Corporation 1998 Broad Based Incentive Stock Plan (incorporated herein by reference to Exhibit 4.3 of the Company's Form S-8 filed on June 19, 1998, Registration No. 333-57223).
- 10.5(a)* Hexcel Corporation 1998 Broad Based Incentive Stock Plan, as amended on February 3, 2000 (incorporated by reference to Exhibit 10.1 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2000).
- 10.5(b)* Hexcel Corporation 1998 Broad Based Incentive Stock Plan, as amended on February 3, 2000, and further amended on February 1, 2001 (incorporated herein by reference to Exhibit 10.4(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

- 10.5(c) * Hexcel Corporation 1998 Broad Based Incentive Stock Plan, as amended on February 3, 2000, and further amended on February 1, 2001 and January 10, 2002 (incorporated herein by reference to Exhibit 10.4(c) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.5(d) * Hexcel Corporation 1998 Broad Based Incentive Stock Plan, as amended on February 3, 2000, and further amended on February 1, 2001, January 10, 2002 and December 12, 2002 (incorporated herein by reference to Exhibit 10.4(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
- 10.6* Hexcel Corporation Management Stock Purchase Plan (incorporated herein by reference to Exhibit 10.9 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997).
- 10.6(a) * Hexcel Corporation Management Stock Purchase Plan, as amended on March 25, 1999 (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-8 filed on July 26, 1999).
- 10.6(b) * Hexcel Corporation Management Stock Purchase Plan, as amended on March 25, 1999 and December 2, 1999 (incorporated by reference to Exhibit 10.5(b) of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.6(c) * Hexcel Corporation Management Stock Purchase Plan, as amended and restated on February 3, 2000 (incorporated herein by reference to Annex B of the Company's Proxy Statement dated March 31, 2000).
- 10.6(d) * Hexcel Corporation Management Stock Purchase Plan, as amended and restated on December 19, 2000 (incorporated herein by reference to Exhibit 10.5(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.6(e) * Hexcel Corporation Management Stock Purchase Plan, as amended and restated on March 19, 2003.
- 10.7* Hexcel Corporation Management Incentive Compensation Plan, as amended and restated on December 19, 2000 and as further amended on February 27, 2002 (incorporated herein by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.8* Hexcel Corporation Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.9* Form of Employee Option Agreement (2003) (incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
- 22
- 10.10* Form of Employee Option Agreement (2002) (incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.11* Form of Employee Option Agreement (2000) (incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

- 10.12* Form of Employee Option Agreement Special Executive Grant (2000) dated December 20, 2000 (incorporated by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.13* Form of Employee Option Agreement Special Executive Grant (1999) dated December 2, 1999 (incorporated by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.14* Form of Employee Option Agreement (1999) dated December 2, 1999 (incorporated by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.15* Form of Employee Option Agreement (1999) (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1999).
- 10.16* Form of Employee Option Agreement (1998) (incorporated herein by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1998).
- 10.17* Form of Employee Option Agreement (1997) (incorporated herein by reference to Exhibit 10.4 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997).
- 10.18* Form of Employee Option Agreement (1996) (incorporated herein by reference to Exhibit 10.5 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1996).
- 10.19* Form of Employee Option Agreement (1995) (incorporated herein by reference to Exhibit 10.6 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1996).
- 10.20* Form of Retainer Fee Option Agreement for Non-Employee Directors (2003) (incorporated herein by reference to Exhibit 10.19 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
- 10.21* Form of Retainer Fee Option Agreement for Non-Employee Directors (2000) (incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.22* Form of Retainer Fee Option Agreement for Non-Employee Directors (1999) (incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.23* Form of Retainer Fee Option Agreement for Non-Employee Directors (1998) (incorporated herein by reference to Exhibit 10.11 to Hexcel's Annual Report on Form 10-K for the fiscal year ended December 31, 1998).
- 10.24* Form of Retainer Fee Option Agreement for Non-Employee Directors (1997) (incorporated herein by reference to Exhibit 10.8 to Hexcel's Annual Report on Form 10-K

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

for the fiscal year ended December 31, 1997).

- 10.25* Form of Option Agreement (Directors) (incorporated herein by reference to Exhibit 10.13 to Hexcel's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).
- 10.26* Form of Supplemental Compensation Option Agreement (Directors) (incorporated herein by reference to Exhibit 10.23 to Hexcel's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.27* Form of Performance Accelerated Restricted Stock Unit Agreement (December 20, 2000) (incorporated herein by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.28* Form of Performance Accelerated Restricted Stock Unit Agreement (Special Executive Grant December 2, 1999) (incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.29* Form of Performance Accelerated Restricted Stock Unit Agreement (December 2, 1999) (incorporated by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.30* Form of Performance Accelerated Restricted Stock Unit Agreement (1999) (incorporated herein by reference to Exhibit 10.2 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1999).
- 10.31* Form of Performance Accelerated Restricted Stock Unit Agreement (1998) (incorporated herein by reference to Exhibit 10.2 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1998).
- 10.32* Form of Performance Accelerated Restricted Stock Unit Agreement (1997) (incorporated herein by reference to Exhibit 10.5 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997).
- 10.33* Form of Performance Accelerated Restricted Stock Unit Agreement (1996) (incorporated herein by reference to Exhibit 10.9 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1996).
- 10.34* Form of Restricted Stock Unit Agreement (2003) (incorporated herein by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
- 10.35* Form of Restricted Stock Unit Agreement (2002) (incorporated herein by reference to Exhibit 10.31 to Hexcel's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.36* Form of Reload Option Agreement (1997) (incorporated herein by reference to Exhibit 10.8 of Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997).
- 10.37* Form of Reload Option Agreement (1996) (incorporated herein by reference to Exhibit 10.10 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1996).

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

- 10.38* Form of Exchange Performance Accelerated Stock Option Agreement (incorporated Herein by reference to Exhibit 10.3 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1998).
- 10.39* Form of Performance Accelerated Stock Option Agreement (Director) (incorporated herein by reference to Exhibit 10.6 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997).

24

- 10.40* Form of Performance Accelerated Stock Option (Employee) (incorporated herein by reference to Exhibit 10.7 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997).
- 10.41* Form of Grant of Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.3 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1999).
- 10.42* Form of Grant of Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.10 to Hexcel's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1997).
- 10.43* Hexcel Corporation 1997 Employee Stock Purchase Plan, as amended and restated as of March 19, 2003.
- 10.44* Employment Agreement dated as of July 30, 2001 between Hexcel Corporation and David E. Berges (incorporated by reference herein to Exhibit 10.37 to Hexcel's Registration Statement on Form S-4 (No. 333-66582), filed on August 2, 2001).
- 10.44(a)* Amendment, dated December 12, 2002, to Employment Agreement dated as of July 30, 2001 between Hexcel Corporation and David E. Berges (incorporated herein by reference to Exhibit 10.43(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
- 10.44(b)* Employee Option Agreement dated as of July 30, 2001 between Hexcel Corporation and David E. Berges (incorporated by reference herein to Exhibit 10.37(a) to Hexcel's Registration Statement on Form S-4 (No. 333-66582), filed on August 2, 2001).
- 10.44(c)* Employment Option Agreement (performance-based option) dated as of July 30, 2001 between Hexcel Corporation and David E. Berges (incorporated by reference herein to Exhibit 10.37(b) to Hexcel's Registration Statement on Form S-4 (No. 333-66582), filed on August 2, 2001).
- 10.44(d)* Restricted Stock Agreement dated as of July 30, 2001 between Hexcel Corporation and David E. Berges (incorporated by reference herein to Exhibit 10.37(c) to Hexcel's Registration Statement on Form S-4 (No. 333-66582), filed on August 2, 2001).
- 10.44(e)* Supplemental Executive Retirement Agreement dated as of July 30, 2001 between Hexcel Corporation and David E. Berges (incorporated by reference herein to Exhibit 10.37(d) to Hexcel's Registration Statement on Form S-4 (No. 333-66582), filed on August 2, 2001).

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

- 10.44(f) * Letter Agreement dated August 1, 2001 between Hexcel Corporation and David E. Berges (incorporated by reference herein to Exhibit 10.37(e) to Hexcel's Registration Statement on Form S-4 (No. 333-66582), filed on August 2, 2001).
- 10.44(g) * Letter Agreement dated August 28, 2001 between Hexcel Corporation and David E. Berges (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- 10.45* Letter dated December 2, 1999 from Hexcel Corporation to Stephen C. Forsyth, regarding the Company's Management Incentive Compensation Plan for 1999 (incorporated by reference to Exhibit 10.35 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.45(a) * Supplemental Executive Retirement Agreement dated as of May 10, 2000 between Hexcel Corporation and Stephen C. Forsyth (incorporated herein by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2000).

25

- 10.45(b) * Amendment to Agreements, dated as of October 11, 2000 by and between Hexcel Corporation and Stephen C. Forsyth (incorporated herein by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2000).
- 10.45(c) * Amendment to Amendments to Agreements, dated as of November 21, 2000, by and between Hexcel Corporation and Stephen C. Forsyth (incorporated herein by reference to Exhibit 10.39(c) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.45(d) * First Amendment to Supplemental Executive Retirement Agreement dated as of July 30, 2001 between Hexcel Corporation and Stephen C. Forsyth (incorporated herein by reference to Exhibit 10.43(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.46* Letter dated December 2, 1999 from Hexcel Corporation to Ira J. Krakower, regarding the Company's Management Incentive Compensation Plan for 1999 (incorporated herein by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.46(a) * Supplemental Executive Retirement Agreement dated as of May 10, 2000 between Hexcel and Ira J. Krakower (incorporated herein by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2000).
- 10.46(b) * Amendment to Agreements, dated as of October 11, 2000 by and between Hexcel Corporation and Ira J. Krakower (incorporated herein by reference to Exhibit 10.7 of the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2000).
- 10.46(c) * First Amendment to Supplemental Executive Retirement Agreement dated as of July 30, 2001 between Hexcel Corporation and Ira J. Krakower (incorporated herein by reference to Exhibit 10.44(c) to the Company's Annual Report on Form 10-K for the fiscal year

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

ended December 31, 2001).

- 10.47* Form of Executive Severance Agreement between Hexcel and certain executive officers dated as of February 3, 1999 (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1999).
- 10.48* Form of Executive Severance Agreement between Hexcel and certain executive officers dated as of February 3, 1999 (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1999).
- 10.49* Amendment to Agreements, dated as of October 11, 2000 by and between Hexcel Corporation and William Hunt (incorporated herein by reference to Exhibit 10.14 of the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2000).
- 10.49(a)* Amendment to Amendments to Agreements, dated as of November 21, 2000, by and between Hexcel Corporation and William Hunt (incorporated herein by reference to Exhibit 10.45(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.50* Amendment to Agreements, dated as of October 11, 2000 by and between Hexcel Corporation and David Tanonis (incorporated herein by reference to Exhibit 10.12 of the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2000).
- 10.51* Amendment to Agreements, dated as of October 11, 2000 by and between Hexcel Corporation and Joseph Shaulson (incorporated herein by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2000).

26

- 10.51(a)* Amendment to Amendments to Agreements, dated as of November 21, 2000, by and between Hexcel Corporation and Joseph Shaulson (incorporated herein by reference to Exhibit 10.48(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
- 10.52 Lease Agreement, dated as of September 15, 1998, by and among Clark-Schwebel Corporation (a wholly-owned subsidiary of Hexcel) as lessee, CSI Leasing Trust as lessor, and William J. Wade as co-trustee for CSI Leasing Trust (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1998).
- 10.53 Amended and Restated Governance Agreement, dated as of March 19, 2003, among LXH L.L.C., LXH II, L.L.C., GS Capital Partners 2000 L.P., GS Capital Partners 2000 Offshore, L.P., GS Capital Partners 2000 Employee Fund, L.P., GS Capital Partners 2000 GmbH & Co. Beteiligungs KG, Stone Street Fund 2000, L.P. and Hexcel Corporation.
- 10.54 Stockholders Agreement, dated as of March 19, 2003, among Berkshire Fund V, Limited Partnership, Berkshire Fund VI, Limited Partnership, Berkshire Fund V Investment Corp., Berkshire Fund VI Investment Corp., Berkshire Investors LLC, Greenbriar Co-Investment Partners L.P, Greenbriar Equity Fund, L.P. and Hexcel Corporation.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

- 10.55 Amended and Restated Registration Rights Agreement, dated as of March 19, 2003, by and among Hexcel Corporation, LXH, L.L.C., LXH II, L.L.C., GS Capital Partners 2000 L.P., GS Capital Partners 2000 Offshore, L.P., GS Capital Partners 2000 Employee Fund, L.P., GS Capital Partners 2000 GmbH & Co. Beteiligungs KG and Stone Street Fund 2000, L.P.
- 10.56 Registration Rights Agreement, dated as of March 19, 2003, among Hexcel Corporation, Berkshire Fund V, Limited Partnership, Berkshire Fund VI, Limited Partnership, Berkshire Investors LLC, Greenbriar Co-Investment Partners L.P. and Greenbriar Equity Fund, L.P.
- 10.57 Agreement, dated October 11, 2000, by and among Hexcel Corporation, LXH, L.L.C. and LXH II, L.L.C. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 13, 2000).
- 10.58 Consent and Termination Agreement, dated as of October 11, 2000, by and between Hexcel Corporation and Ciba Specialty Chemicals Holding Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 13, 2000).
- 10.59 Purchase Agreement, dated as of June 15, 2001, among Hexcel Corporation and Credit Suisse First Boston Corporation, Deutsche Banc Alex. Brown Inc., Goldman, Sachs & Co. and J.P. Morgan Securities Inc (incorporated herein by reference to Exhibit 10.56 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.60 Stock Purchase Agreement, dated as of December 18, 2002, by and among Hexcel Corporation, Berkshire Investors LLC, Berkshire Fund V, Limited Partnership, Berkshire Fund VI, Limited Partnership, Greenbriar Equity Fund, L.P. and Greenbriar Co-Investment Partners, L.P. (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated December 20, 2002).
- 10.61 Stock Purchase Agreement, dated as of December 18, 2002, by and among Hexcel Corporation, GS Capital Partners 2000, L.P., GS Capital Partners 2000 Offshore, L.P., GS Capital Partners 2000 Employee Fund, L.P., GS Capital Partners 2000 GmbH & Co. Beteiligungs KG and Stone Street Fund 2000, L.P. (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated December 20, 2002).
- 27
- 10.62 Purchase Agreement, dated as of March 7, 2003, among Goldman, Sachs & Co., Fleet Securities, Inc. and Hexcel Corporation.
- 10.63 Exchange and Registration Rights Agreement dated as of March 19, 2003 among Hexcel Corporation, Clark-Schwebel Holding Corp., Clark-Schwebel Corporation, Hexcel Pottsville Corporation and CS Tech-Fab Holding, Inc.
- 10.64 Pledge and Security Agreement, dated as of March 19, 2003, between Hexcel Corporation, Clark-Schwebel Holding Corp., Clark-Schwebel Corporation, Hexcel Pottsville Corporation, CS Tech-Fab Holding, Inc. and Hexcel International, and HSBC Bank

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

USA, as Joint Collateral Agent.

- 10.65 Collateral Agency Agreement, dated as of March 19, 2003, by and among Hexcel Corporation, HSBC Bank USA, as Joint Collateral Agent, Well Fargo Bank Minnesota, National Association, as trustee, and the representatives of the holders of Parity Lien Debt who may become a party thereto.
- 10.66 Intercreditor and Agency Agreement dated as of March 19, 2003, by and among HSBC Bank USA, as Joint Collateral Agent, Fleet Capital Corporation, as Intercreditor Agent and Security Trustee, Fleet Capital Corporation, as Administrative Agent under the Existing Credit Facility, Well Fargo Bank Minnesota, National Association, as trustee, and each other Credit Facility Agent that may become a party thereto.
- 12.1 Statement regarding the computation of ratio of earnings to fixed charges for the Company (incorporated herein by reference to Exhibit 12.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
- 21.1 Subsidiaries of the Company (incorporated herein by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
- 23.1 Consent of Independent Accountants - PricewaterhouseCoopers LLP.
- 23.2 Consent of Independent Accountants - Deloitte Touche Tohmatsu Certified Public Accountants Ltd.
- 24.1 Power of Attorney (included on signature page).
- 99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates management contract or compensatory plan or arrangement.

28

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF STAMFORD, STATE OF CONNECTICUT.

HEXCEL CORPORATION

March 31, 2003

/s/ DAVID E. BERGES

(Date)

David E. Berges
Chief Executive Officer

KNOWN TO ALL PERSONS BY THESE PRESENTS, THAT EACH PERSON WHOSE SIGNATURE

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

APPEARS BELOW CONSTITUTES AND APPOINTS STEPHEN C. FORSYTH, HIS ATTORNEY-IN-FACT, WITH THE POWER OF SUBSTITUTION, FOR HIM IN ANY AND ALL CAPACITIES, TO SIGN ANY AMENDMENTS TO THIS REPORT, AND TO FILE THE SAME, WITH EXHIBITS THERETO AND OTHER DOCUMENTS IN CONNECTION THEREWITH, WITH THE SECURITIES AND EXCHANGE COMMISSION, HEREBY RATIFYING AND CONFIRMING ALL THAT SAID ATTORNEY-IN-FACT, OR HIS SUBSTITUTE OR SUBSTITUTES, MAY DO OR CAUSE TO BE DONE BY VIRTUE HEREOF.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE -----	TITLE -----	DATE ----
<p>/s/ DAVID E. BERGES ----- (David E. Berges)</p>	<p>Chairman of the Board of Directors, President and Chief Executive Officer (PRINCIPAL EXECUTIVE OFFICER)</p>	<p>March 31,</p>
<p>/s/ STEPHEN C. FORSYTH ----- (Stephen C. Forsyth)</p>	<p>Executive Vice President and Chief Financial Officer (PRINCIPAL FINANCIAL OFFICER)</p>	<p>March 31,</p>
<p>/s/ WILLIAM J. FAZIO ----- (William J. Fazio)</p>	<p>Corporate Controller (PRINCIPAL ACCOUNTING OFFICER)</p>	<p>March 31,</p>
<p>/s/ JOEL S. BECKMAN ----- (Joel S. Beckman)</p>	<p>Director</p>	<p>March 31,</p>
<p>/s/ H. ARTHUR BELLOWS, JR. ----- (H. Arthur Bellows, Jr.)</p>	<p>Director</p>	<p>March 31,</p>
<p>/s/ JAMES J. GAFFNEY ----- (James J. Gaffney)</p>	<p>Director</p>	<p>March 31,</p>
29		
<p>/s/ SANJEEV K. MEHRA ----- (Sanjeev K. Mehra)</p>	<p>Director</p>	<p>March 31,</p>
<p>/s/ LEWIS RUBIN ----- (Lewis Rubin)</p>	<p>Director</p>	<p>March 31,</p>

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

/s/ ROBERT J. SMALL

Director

March 31,

(Robert J. Small)

/s/ MARTIN L. SOLOMON

Director

March 31,

(Martin L. Solomon)

30

CERTIFICATIONS

I, David E. Berges, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 1) of Hexcel Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 31, 2003

/s/ DAVID E. BERGES

(Date)

David E. Berges
Chairman of the Board of Directors,
President and Chief Executive Officer

31

I, Stephen C. Forsyth, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 1) of Hexcel Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 31, 2003

/s/ STEPHEN C. FORSYTH

(Date)

Stephen C. Forsyth
Executive Vice President and
Chief Financial Officer

32

SELECTED FINANCIAL DATA
(IN MILLIONS, EXCEPT PER SHARE DATA)

The following table summarizes selected financial data as of and for the five years ended December 31:

	2002	2001	2000
RESULTS OF OPERATIONS (a):			
Net sales	\$ 850.8	\$ 1,009.4	\$ 1,055.7
Cost of sales	689.5	818.6	824.3
Gross margin	161.3	190.8	231.4
Selling, general and administrative expenses	85.9	120.9	123.9
Research and technology expenses	14.7	18.6	21.2
Business consolidation and restructuring expenses	0.5	58.4	10.9
Impairment of goodwill and other purchased intangibles	-	309.1	-
Operating income (loss)	60.2	(316.2)	75.4
Litigation gain	9.8	-	-
Interest expense	(62.8)	(64.8)	(68.7)
Gain (loss) on early retirement of debt	0.5	(2.7)	-
Gain on sale of Bellingham aircraft interiors business	-	-	68.3
Income (loss) before income taxes	7.7	(383.7)	75.0
Provision for (benefit from) income taxes	11.3	40.5	26.3
Income (loss) before equity in earnings (losses)	(3.6)	(424.2)	48.7
Equity in earnings (losses) of and write-downs of an investment in affiliated companies	(10.0)	(9.5)	5.5
Net income (loss)	\$ (13.6)	\$ (433.7)	\$ 54.2
Net income (loss) per share: (b)			
Basic	\$ (0.35)	\$ (11.54)	\$ 1.47
Diluted	\$ (0.35)	\$ (11.54)	\$ 1.32
Weighted average shares outstanding:			
Basic	38.4	37.6	36.8
Diluted	38.4	37.6	45.7

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

FINANCIAL POSITION:

Total assets	\$ 708.1	\$ 789.4	\$ 1,211.4
Working capital	\$ (530.8)	\$ 80.5	\$ 128.1
Long-term notes payable and capital lease obligations	\$ -	\$ 668.5	\$ 651.5
Stockholders' equity (deficit) (c)	\$ (127.4)	\$ (132.6)	\$ 315.7

OTHER DATA:

Depreciation and amortization	\$ 47.2	\$ 63.2	\$ 58.7
Capital expenditures	\$ 14.9	\$ 38.8	\$ 39.6
Shares outstanding at year-end, less treasury stock	38.5	38.2	37.1

- (a) The comparability of the data may be affected by acquisitions and divestitures. The Company acquired Clark-Schwebel, a manufacturer of high-quality fiberglass fabrics used to make printed wiring boards and high performance specialty products used in insulation, filtration, wall and facade claddings, soft body armor and reinforcements for composite materials in 1998. The acquisition was accounted for using the purchase method of accounting. The Bellingham aircraft interiors business was sold in April 2000.
- (b) Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets," ("FAS 142"). Prior to adopting FAS 142, goodwill was amortized on a straight-line basis over estimated economic lives, ranging from 15 years to 40 years. As a result of adopting FAS 142, goodwill is no longer amortized, but instead is tested for impairment at the reporting unit level at least annually and whenever events or changes in circumstances indicate that goodwill might be impaired. Amortization of goodwill and other purchased intangibles was \$12.5 million in 2001 and \$13.1 million in 2000.
- (c) No cash dividends were declared per common stock during any of the five years ended December 31, 2002.

33

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW

(IN MILLIONS, EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER	
	2002	2001
Net sales (a)	\$ 850.8	\$ 1,009.4
Gross margin %	19.0%	18.9%
Operating income	\$ 60.2	\$ (316.2)
Operating income %	7.1%	-
Provision for income taxes (b)	\$ 11.3	\$ 40.5
Litigation gain	\$ 9.8	\$ -
Equity in earnings (losses) of and write-downs of an investment in affiliated companies	\$ (10.0)	\$ (9.5)
Net income (loss)	\$ (13.6)	\$ (433.7)
Diluted earnings (loss) per share	\$ (0.35)	\$ (11.54)

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

- (a) Giving effect to the April 26, 2000 sale of the Bellingham aircraft interiors business as if the transaction had occurred on January 1, 2000, net sales would have been \$1,036.8 million in 2000.
- (b) Reflects the impact of ceasing to record the tax benefits from U.S. operating losses commencing during the second quarter of 2001. In addition, 2001 results reflect the impact of the write-down of U.S. deferred tax assets in the fourth quarter of 2001. The 2000 results include \$24.0 million of provision for income taxes on the April 2000 gain from the sale of the Bellingham aircraft interiors business.

BUSINESS TRENDS

The Company has experienced major changes in two of the significant markets for its products during 2001 and 2002. Towards the end of the first quarter of 2001, the Company experienced a significant reduction in the demand for its woven fiberglass fabrics used as substrates for printed wiring boards. In 2001, net sales from such electronics applications declined \$104.2 million or 58% compared to 2000. During 2002, sales declined a further \$18.7 million to \$58.3 million, as the full annual effect of the changes in the industry were evident.

The tragic events of September 11 precipitated a significant reduction in the production of new build commercial aircraft. In late 2001, both Airbus and Boeing announced reductions in build rates that were implemented by the middle of 2002. As the Company delivers on average six months ahead of its customer's delivery of an aircraft, the Company experienced reduced revenues commencing in the first quarter, 2002. Full year 2002 net sales to the commercial aerospace sector were \$147.8 million or 27.4% lower than 2001 at \$391.1 million.

The Company has responded to these major changes in its two largest historic markets by implementing a major restructuring program it announced in November 2001. This program targeted reducing the Company's fixed costs ahead of the changes in the demand for its products. The program also provided for the cost of reducing variable costs as customer demand declined. These cost reductions have predominantly been accomplished by a sharp reduction in the Company's work force. Headcount has declined from a high of over 6,200 during the third quarter, 2001 to 4,245 as of December 31, 2002. This right sizing of the Company has enabled it to stabilize operating profitability despite the significant reduction in net sales.

The changes in business performance and outlook required that the Company obtain an amendment to the financial maintenance covenants under its existing senior credit facility to accommodate its anticipated performance in 2002. The Company's bank syndicate and the Company entered into an amendment of the financial covenants on January 25, 2002. The Company has since been in compliance with those covenants. With the benefit of reductions in capital expenditures and working capital as well as the receipt of proceeds from a litigation settlement and the sale of a portion of an equity interest in an affiliated company, the Company reduced its total debt during 2002 by \$64.2 million despite incurring cash restructuring costs of \$24.3 million.

Although the Company has stabilized operating profitability and reduced its total debt during 2002, a significant amount of debt remains outstanding. The remaining \$46.9 million of 7% convertible subordinated notes are due for redemption on August 1, 2003 and the revolving credit and overdraft lines under the existing senior credit facility are due on September 14, 2004. The Company has therefore sought new equity capital and announced on December 18, 2002 that

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

it has entered into definitive agreements providing for a new equity financing through the issuance of a total of 125,000 shares of a series A convertible preferred stock and 125,000 shares of a series B convertible preferred stock for \$125.0 million in cash. The intent is to right-size the capital structure of the Company to its current business circumstances.

On March 19, 2003, Hexcel successfully completed the refinancing of its capital structure through the simultaneous closings of three financing transactions: the completion of its previously announced sale of mandatorily redeemable convertible preferred stock for \$125.0 million, the issuance of \$125.0 million of 9-7/8% senior secured notes, due 2008, and the establishment of a new \$115.0 million senior secured credit facility, also due 2008.

The proceeds from the sale of the convertible preferred stock have been used to provide for the redemption of \$46.9 million principal amount of the Company's 7% convertible subordinated notes, due 2003, and to repay outstanding borrowings under the existing senior credit facility. Proceeds to be used to redeem the 7% convertible subordinated notes have been remitted to US Bank Trust, trustee for the notes, for the express purpose of retiring the outstanding principal balance of the notes, plus accrued interest.

The remaining advances under the existing senior credit facility, after the application of a portion of the equity proceeds, have been repaid with the proceeds from the issuance of the Company's new 9-7/8% senior secured notes and a new senior secured credit facility.

With the benefit of the financing transactions, the Company's next significant scheduled debt maturity will not occur until 2008, with annual debt and capital lease maturities ranging between \$6.2 million and \$12.5 million prior to 2008. Total debt as of March 19, 2003, after giving pro forma effect to these financing transactions and their related costs, was \$531.6 million.

LITIGATION SETTLEMENT:

In June 2002, the Company benefited from a judgment entered in litigation with Hercules Corporation arising from a contract dispute in connection with the 1996 purchase of the Hercules' Composites Products Division. Hexcel received approximately \$11.1 million from Hercules in satisfaction of a judgment entered after Hercules had exhausted all appeals from a lower court decision in favor of Hexcel in the New York Courts. The net cash proceeds from the settlement were used to reduce outstanding debt under the senior credit facility.

SALE OF OWNERSHIP IN A JOINT VENTURE:

In 2002, the Company agreed with its Asian Electronics venture partner to restructure its minority interest in Asahi-Schwebel Co., Ltd. ("Asahi-Schwebel"). Under the terms of the agreement, the Company reduced its ownership interest in the joint venture from 43.3% to 33.3% and received cash proceeds of \$10.0 million. The agreement also included, among other matters, a put option in favor of the Company to sell and a call option in favor of the Company's joint venture partner to purchase the Company's remaining ownership interest in the joint venture for \$23.0 million. The options are simultaneously effective for a six-month period beginning July 1, 2003. Reflecting these terms, the Company wrote-down the carrying value of its remaining equity investment in this joint venture to its estimated fair market value of \$23.0 million, recording a non-cash impairment charge of \$4.0 million. There was no tax benefit recognized on the write-down. The net cash proceeds from this sale were used to reduce outstanding debt under the senior credit facility.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

RESULTS OF OPERATIONS

2002 COMPARED TO 2001

NET SALES: Consolidated net sales for 2002 were \$850.8 million, a decrease of 15.7% when compared to 2001 net sales of \$1,009.4 million, reflecting lower sales to the commercial aerospace and electronics markets. Net sales to the commercial aerospace market declined by 27.4% as build rates of new commercial aircraft were reduced. Net sales to the electronics market were 24.3% lower than in 2001, reflecting the full year impact of a severe electronics industry downturn that was first seen late in the first quarter of 2001. The reduction in net sales to these markets was partially offset by continued growth in revenues to industrial and space and defense markets of 1.5% and 2.9%, respectively. Had the same U.S. dollar, British pound and Euro exchange rates applied in 2002 as in 2001, consolidated net sales for 2002 would have been approximately \$837.6 million, reflecting the weakening of the U.S. dollar over the twelve months.

Hexcel has three reportable segments: Reinforcements, Composites and Structures. Although these strategic business units provide customers with different products and services, they often overlap within four end markets: Commercial Aerospace, Industrial, Space & Defense, and Electronics. The Company finds it meaningful to evaluate the performance of its segments through the four end markets. Further discussion and additional financial information about the Company's segments may be found in Note 19 to the accompanying consolidated financial statements of this Annual Report on Form 10-K.

The following table summarizes net sales to third-party customers by segment and end market in 2002 and 2001:

(IN MILLIONS)	UNAUDITED			
	COMMERCIAL AEROSPACE	INDUSTRIAL	SPACE & DEFENSE	ELECTRONICS
<hr style="border-top: 1px dashed black;"/>				
2002 NET SALES				
Reinforcements	\$ 49.0	\$ 110.6	\$ -	\$ 58.3
Composites	256.6	143.3	132.5	-
Structures	85.5	-	15.0	-
<hr style="border-top: 1px dashed black;"/>				
Total	\$ 391.1 46%	\$ 253.9 30%	\$ 147.5 17%	\$ 58.3 7%
<hr style="border-top: 1px dashed black;"/>				
2001 NET SALES (a)				
Reinforcements	\$ 54.5	\$ 114.2	\$ -	\$ 77.0
Composites	374.1	136.0	128.7	-
Structures	110.3	-	14.6	-
<hr style="border-top: 1px dashed black;"/>				
Total	\$ 538.9 53%	\$ 250.2 25%	\$ 143.3 14%	\$ 77.0 8%
<hr style="border-top: 1px dashed black;"/>				

- (a) As part of a restructuring program, the Company changed the responsibility and reporting of one of its product lines effective January 1, 2002. Hexcel's business segment reporting has therefore been revised in 2002. Coincident with this change, Hexcel revised the names of its reporting business segments to Reinforcements, Composites and Structures. The 2001 results have been restated for comparative purposes.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Commercial aerospace net sales decreased 27.4% to \$391.1 million for 2002, as compared to net sales of \$538.9 million for 2001. This decrease in comparable net sales reflects a reduction in commercial aircraft build rates by Airbus and Boeing during 2002 and into the first half of 2003. Boeing delivered 381 aircraft in 2002, down from 527 in 2001, and projects that its deliveries in 2003 will be reduced by approximately 25% to a level between 270 and 290 aircraft. Airbus' 2002 aircraft deliveries were 303, slightly lower than the 325 aircraft delivered in 2001. Airbus has indicated its 2003 deliveries and production will be approximately 300 aircraft. This guidance suggests that combined Boeing and Airbus commercial aircraft deliveries in 2003 will be about 15% lower than in 2002. The impact on the Company's commercial aerospace revenues of the further forecasted reduction in aircraft deliveries in 2003 will likely be smaller. As the Company delivers its products on average six months ahead of the delivery of an aircraft, it has been experiencing customer demand that approximates the 2003 forecasted deliveries for several months. The Company's commercial aerospace revenues in the second half of 2003 will start to reflect its customers anticipated deliveries

36

of commercial aircraft in 2004. In addition to the number of aircraft produced, the Company's commercial aerospace revenues are influenced by the mix of aircraft that are produced, as twin aisle aircraft use more of the Company's products than narrow body aircraft and newly designed aircraft use more than older generations. Unlike many aerospace suppliers, Hexcel's sales to this market are almost entirely driven by new aircraft build rates with no material aftermarket content.

Airbus is well into the launch of their new jumbo aircraft, the Airbus A380. Hexcel's deliveries of material for this aircraft have already begun to support certification and test requirements. While the Airbus A380 is not expected to enter service until approximately 2006, the design of the plane indicates that it will be the largest commercial aerospace consumer of composite materials per aircraft. About 19% of its dry weight is expected to be from composites, a significant increase above the level found even in today's most advanced wide body aircrafts, the Boeing 777 and the Airbus A340-500/600.

Industrial net sales of \$253.9 million for 2002 were slightly higher than the \$250.2 million recorded in 2001. This year-on-year increase was highlighted by strong growth in demand for composite materials used in wind energy applications and continued strength in demand for the Company's products used in other non-aerospace applications, including architectural, automotive, civilian body armor, rail and marine, and various recreational equipment. While sales of the Company's reinforcement fabrics used in soft body armor applications increased slightly in 2002, sales to U.S. military applications began to decline in the second half of 2002, due largely to the timing of the placement of new contracts with the Company's customers for military body armor programs. Due to the lack of clarity in military soft body armor demand, the Company's Industrial revenues may fluctuate for several quarters even though the prospects for growth from wind energy and other applications remain strong.

Space and defense net sales for 2002 of \$147.5 million were 2.9% higher than the 2001 net sales of \$143.3 million. In general, sales associated with military aircraft and helicopters continue to trend upwards as the new generation of military aircraft in the United States and Europe ramp up in production. Approved and projected defense procurement budgets in the United States and Europe support this outlook. The Company is currently qualified to supply materials to a broad range of military aircraft and helicopters. These programs include the F/A-18E/F (Hornet), the F-22 (Raptor), the European Fighter Aircraft (Typhoon), the C-17, the V-22 (Osprey) tilt rotor aircraft, the Tiger and the NH90 helicopters. The benefits that the Company will derive from these

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

programs will depend upon which of these programs are funded and the extent of such funding.

Electronics net sales of \$58.3 million for 2002 were 24.3% lower than net sales of \$77.0 million in 2001. Revenues continue to be affected by a severe industry downturn in the global electronics market first seen in the first quarter of 2001 that has had a prolonged negative impact on the demand for the Company's fiberglass fabric substrates used in the fabrication of printed wiring boards. In addition, import quotas limiting Asian imports of fiberglass fabrics into the U.S. expired at the end of 2001 and migration of lower layer count printed wiring board production from the United States to Asia has continued. With excess industry production capacity, pricing remains under pressure. With these industry conditions continuing, the Company sees no evidence of a near-term recovery in this market.

GROSS MARGIN: Gross margin for 2002 was \$161.3 million, or 19.0% of net sales, compared to gross margin of \$190.8 million, or 18.9% of net sales, in 2001. The \$29.5 million decline in gross margin reflected the impact of the year-on-year sales declines in the commercial aerospace and electronics markets. While gross margins declined, the Company actually improved gross margin as a percentage of net sales by exceeding its goals for reductions in factory fixed costs in the previously announced restructuring programs.

Although the gross margin in the Reinforcements segment declined \$1.6 million compared to 2001 due to the electronics market declined, gross margin as a percentage of sales actually improved 130 basis points to 16.9% in 2002, as raw material prices and manufacturing costs reductions more than offset lower revenues. Gross margins earned by the Composites and the Structures segments declined \$23.6 million and \$4.2 million, respectively, when compared to 2001. Manufacturing cost

37

reductions were able to hold percentage gross margins steady in the Composites segment. The Structures segment's gross margin as a percentage of sales declined 250 basis points, as it ramped up the transition of existing programs to build composite structures for commercial aircraft for its Asian joint ventures and received new programs from Boeing.

SELLING, GENERAL AND ADMINISTRATIVE ("SG&A") EXPENSES: SG&A expenses were \$85.9 million, or 10.1% of net sales, in 2002 compared with \$120.9 million, or 12.0% of net sales, in 2001. Excluding compensation expenses associated with the former CEO's retirement of \$4.7 million in 2001 and the impact of the adoption of FAS 142 on goodwill amortization, SG&A expenses in 2001 were \$103.7 million, or 10.3% of net sales. The net year-on-year reduction of \$17.8 million, or 17.2%, after adjustments, reflects the impact of the Company's restructuring programs to reduce expenses to mitigate the reduction in sales in the commercial aerospace and electronics markets. Goodwill amortization in 2001 was \$12.5 million.

RESEARCH AND TECHNOLOGY ("R&T") EXPENSES: R&T expenses were \$14.7 million, or 1.7% of net sales, in 2002 compared to \$18.6 million, or 1.8% of net sales, in 2001. Over the past two years the Company has concentrated its R&T efforts on developing new materials to meet the emerging needs of our customers, as well as expanding the range of applications for reinforcements and composite materials.

OPERATING INCOME: Operating income for 2002 was \$60.2 million, or 7.1% of net sales, compared with an operating loss of \$316.2 million in 2001. Excluding business consolidation and restructuring expenses of \$0.5 million and \$58.4 million incurred in 2002 and 2001, respectively, a \$309.1 million impairment of goodwill and other purchased intangibles in 2001, \$4.7 million of compensation

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

expenses associated with the former CEO's retirement in 2001, and \$12.5 million in amortization expense incurred in 2001, operating income would have been \$60.7 million, or 7.1% of net sales, for 2002 compared with \$68.5 million, or 6.8% of net sales, for 2001. This \$7.8 million decline in operating income, after these adjustments, reflects the year-on-year decrease in gross margins offset, in part, by reductions in SG&A and R&T expenses.

Operating income, after excluding the segments' attributable share of the aforementioned items, in the Reinforcements segment increased \$3.7 million, as compared with 2001, to \$19.1 million reflecting the benefits obtained from restructuring programs during the year. The Composites segment's operating income, after such exclusions, decreased by \$13.0 million, as declines in net sales outpaced cost reductions. With the impact of the transition of programs to its Asian joint ventures and the start up of new programs received from Boeing, the Structures segment's operating income was \$1.8 million lower than in 2001. The Company did not allocate corporate operating expenses of \$26.7 million and \$30.0 million to operating segments in 2002 and 2001, respectively.

LITIGATION GAIN: In 2002, the Company recognized a litigation gain of \$9.8 million (net of related fees and expenses) in connection with a contract dispute with Hercules, Inc. that arose out of the acquisition of Hercules' Composites Products Division in 1996. The net cash proceeds received from Hercules Inc. of \$11.1 million were in satisfaction of the judgment entered in favor of the Company after Hercules had exhausted all appeals from a lower court decision in the New York courts.

INTEREST EXPENSE: Interest expense for 2002 was \$62.8 million compared to \$64.8 million in 2001. Included in interest expense for 2002 and 2001 was approximately \$1.8 million and \$1.0 million, respectively, of fees and expenses incurred in connection with bank amendments. Excluding these fees and expenses, interest expense was \$61.0 million in 2002 and \$63.8 million in 2001. This \$2.8 million reduction in interest expense year-on-year reflects the reductions in total debt in the last twelve months, the benefit of the reductions in LIBOR, net of the increase in the spread over LIBOR that the Company pays on its advances under its senior credit facility. For additional information, see Note 8 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A.

GAIN (Loss) ON EARLY RETIREMENT OF DEBT: In 2002, the Company recognized a \$0.5 million gain on the early retirement of debt, related to the repurchase of \$1.8 million of its 7% convertible subordinated debentures, due 2011, in satisfaction of an annual sinking fund requirement. The debt was repurchased at market prices, which resulted in a gain.

38

A loss of \$2.7 million was recorded in 2001 as a result of the early retirement of \$67.5 million aggregate principal amount of the Company's outstanding 7% convertible subordinated notes, due 2003, and the redemption of the entire principal amount of \$25.0 million of the Company's increasing rate senior subordinated notes, due 2003. With the adoption of Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," on January 1, 2002, the \$2.7 extraordinary loss on early retirement of debt reported in 2001 was reclassified as a separate line item below operating income in the consolidated statements of operations. There was no tax benefit recognized on the loss because of limitations on the Company's ability to realize the tax benefits.

PROVISION FOR INCOME TAXES: The Company's tax provision of \$11.3 million for 2002 primarily reflects taxes on foreign income. The Company will continue

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

to establish a non-cash valuation allowance attributable to currently generated U.S. net operating losses until such time as the U.S. operations have returned to consistent profitability.

The Company had a tax provision of \$40.5 million in 2001, reflecting the impact of reduced tax benefits recorded for U.S. operating losses resulting from a change in business outlook and the inclusion in its tax provision of a \$30.7 million valuation allowance for previously reported U.S. deferred tax assets. Due to a sharp decline in electronics revenues, the Company determined during the second quarter of 2001 to increase its tax provision rate through the establishment of a non-cash valuation allowance attributable to currently generated U.S. net operating losses until such time as the U.S. operations return to consistent profitability. Due to the effect of significant events that have occurred since the end of the second quarter, including the delay in the anticipated recovery in the electronics market, anticipated reductions in commercial aircraft production, and a general weakening of the economy, along with the sizable impairments to certain long-lived assets in the fourth quarter of 2001, the Company reduced its estimates for future U.S. taxable income during the carryforward period. As a result, the Company concluded that it was appropriate to establish a full valuation allowance on its U.S. deferred tax assets, which resulted in a \$32.6 million valuation allowance for previously reported tax assets. For additional information, see Note 12 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A.

EQUITY IN LOSSES OF AND WRITE-DOWN OF AN INVESTMENT IN AFFILIATED COMPANIES: Equity in losses of affiliated companies was \$10.0 million in 2002, slightly larger than equity in losses of \$9.5 million in 2001. Excluding the \$4.0 million write-down of its investment in Asahi-Schwebel in 2002 and a \$7.8 million write-down of its investment in Interglas Technologies AG ("Interglas") in 2001, equity in losses were \$6.0 million in 2002 compared to \$1.7 million in 2001. The increase in equity losses was due to the impact of the continued electronics market conditions affecting the Company's Asian electronics joint venture and increased year-over-year losses reported by the Company's joint ventures in China and Malaysia as they ramp up production of aerospace composite structures.

In 2002, the Company wrote-down the carrying value of its remaining equity investment in Asahi-Schwebel to its estimated fair market value of \$23.0 million resulting from an agreement with the Company's joint venture partner to restructure its minority interest. The \$7.8 million write-down of Interglas in 2001 was the result of an assessment that an other-than-temporary decline in value in the investment had occurred due to a severe industry downturn and the resulting impact on the financial condition of this company. The amount of the write-down was determined based on available market information and appropriate valuation methodologies. The Company did not record deferred tax benefits on the write-downs because of limitations imposed by foreign tax laws and the Company's ability to realize the tax benefits.

NET LOSS AND NET LOSS PER SHARE:

(IN MILLIONS, EXCEPT PER SHARE DATA)	2002	2001
Net loss	\$ (13.6)	\$ (433.7)
Diluted net loss per share	\$ (0.35)	\$ (11.54)
Diluted weighted average shares outstanding	38.4	37.6

The Company's convertible subordinated notes, due 2003, its convertible

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

subordinated debentures, due 2011 and all of its stock options were excluded from the 2002 and 2001 computation

39

of diluted net loss per share, as they were antidilutive. Refer to Note 14 to the accompanying consolidated financial statements of this Annual Report on Form 10-K for the calculation and number of shares used for diluted net loss per share.

2001 COMPARED TO 2000

NET SALES: Consolidated net sales were \$1,009.4 million in 2001, a 4.4% decline from \$1,055.7 million in 2000. Giving effect to the sale of the Bellingham aircraft interiors business, that occurred on April 26, 2000, as if the transaction had occurred on January 1, 2000, net sales for 2000 would have been \$1,036.8 million, resulting in a decline of 2.6%. The decline was due to a severe industry downturn and inventory correction in the electronics market for the Company's fiberglass fabric substrates, with net sales to that market down \$104.2 million, or 57.5%, year-on-year. The downturn was partially offset by modest growth in the Composites segment of \$44.3 million, or 7.5%, continued expansion in non-electronic markets for Reinforcements of \$18.2 million, or 12.1%, and increased revenues, excluding the Bellingham business, for Structures of \$14.3 million, or 12.9%. Net sales in 2000 generated by the Bellingham aircraft interiors business prior to its sale were \$18.9 million. Had the same U.S. dollar, British pound and Euro exchange rates applied in 2001 as in 2000, consolidated net sales would have been approximately \$1,019.5 million in 2001.

The following table summarizes net sales to third-party customers by segment and end market in 2001 and 2000:

(IN MILLIONS)	UNAUDITED			
	COMMERCIAL AEROSPACE	INDUSTRIAL	SPACE & DEFENSE	ELECTRONICS
<hr style="border-top: 1px dashed black;"/>				
2001 NET SALES (a)				
Reinforcements	\$ 54.5	\$ 114.2	\$ -	\$ 77.0
Composites	374.1	136.0	128.7	-
Structures	110.3	-	14.6	-
<hr style="border-top: 1px dashed black;"/>				
Total	\$ 538.9 53%	\$ 250.2 25%	\$ 143.3 14%	\$ 77.0 8%
<hr style="border-top: 1px dashed black;"/>				
2000 NET SALES (a)				
Reinforcements	\$ 53.6	\$ 96.9	\$ -	\$ 181.2
Composites	343.8	130.9	119.8	-
Structures (b)	120.3	-	9.2	-
<hr style="border-top: 1px dashed black;"/>				
Total	\$ 517.7 49%	\$ 227.8 22%	\$ 129.0 12%	\$ 181.2 17%
<hr style="border-top: 1px dashed black;"/>				

- (a) As part of a restructuring program, the Company changed the responsibility and reporting of one of its product lines effective January 1, 2002. Hexcel's business segment reporting has therefore been revised in 2002. Coincident with this change, Hexcel revised the names of its reporting

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

business segments to Reinforcements, Composites and Structures. The 2001 and 2000 results have been restated for comparative purposes.

- (b) Giving effect to the sale of the Bellingham aircraft interiors business, that occurred on April 26, 2000, as if it had occurred on January 1, 2000, net sales for 2000 would have been \$1,036.8 million. The Bellingham business had \$18.9 million of sales to the commercial aerospace market in 2000. This business was a component of the Company's Structures segment until this business was sold.

Commercial aerospace net sales increased 4.1% to \$538.9 million in 2001 compared with \$517.7 million in 2000. Excluding \$18.9 million in net sales generated by the Bellingham aircraft interiors business, net sales increased 8.0% from \$498.8 million. The increase in comparable net sales reflected higher build rates and product mix of commercial aircraft produced at Airbus, Boeing and several regional aircraft manufacturers. Airbus and Boeing delivered a combined 852 commercial aircraft in 2001, a 6.5% improvement over the 800 delivered in 2000. The Company's net sales are impacted by the mix of aircraft that are produced, as twin aisle aircraft use more of the Company's materials than narrow body aircraft and newly designed aircraft use more of the Company's materials than older generations.

Industrial net sales increased 9.8% to \$250.2 million in 2001 from \$227.8 million in 2000. The increase reflected strong sales growth in reinforcement fabrics used in the manufacture of soft body

40

armor and in composite materials used for wind energy applications. The Company also continued to obtain growth through new automotive applications driven by new programs that use the Company's honeycomb core to provide impact protection and lightweight structural products. Growth in this market was bound by slightly lower net sales to recreational markets tracking macroeconomic trends in consumer spending and travel.

Space and defense net sales in 2001 were \$143.3 million, which reflected a \$14.3 million, or 11.1%, increase from comparable sales in 2000. Sales associated with military aircraft and helicopters continued to trend upwards as the new generation of military aircraft in the United States and Europe ramped up in production. The Company is qualified to supply materials to a broad range of military aircraft and helicopter product programs. These programs, which utilize significantly greater amounts of Hexcel products than previous generations, include the F/A-18E/F (Hornet), the F-22 (Raptor), the European Fighter Aircraft (Typhoon) as well as the C-17, the V-22 (Osprey) tilt rotor aircraft, the RAH-66 (Comanche) and the NH90 helicopters. The benefits that the Company obtains from these programs in a fiscal period often depend upon which ones are funded and the extent of such funding.

Electronics net sales were \$77.0 million in 2001, a decrease of 57.5% from net sales of \$181.2 million in 2000. This decline reflected the impact of a severe industry downturn and inventory correction in the global electronics industry that impacted the demand for the Company's fiberglass fabric substrates used in the fabrication of printed wiring boards. The origins of this downturn had many causes including the end of the so called "tech boom," a sharp reduction in telecommunications infrastructure investments and declining macroeconomic trends. Lower demand resulted in finished goods producers and their subcontractors seeking to liquidate their excess electronics inventories by cutting back on their purchases, which affected the entire supply chain. The Company first saw the impact of this downturn in its U.S. operations in the latter part of the first quarter of 2001. In the second quarter of 2001, U.S. demand weakened further and the Company's European operations, together with its

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

joint venture interests in Europe and Asia, saw the same precipitative decline in customer demand. These reduced demand conditions persisted for the balance of 2001 with sales revenues down in excess of 65% for the second, third and fourth quarters compared to the same quarters in 2000. As the downturn continued through 2001, competition intensified for the business that remained and pricing pressures increased.

GROSS MARGIN: Gross margin for 2001 was \$190.8 million, or 18.9% of sales, versus \$231.4 million, or 21.9% of sales, in 2000. The decrease primarily reflected the impact of the sharp decline in electronics sales in the Company's Reinforcements segment where gross margin fell approximately 7.7% to 15.6% of sales. While the Company had taken actions to significantly reduce costs in the electronics business, it was not able to reduce fixed costs pro-rata to the change in sales given the magnitude of the shortfall in revenues and its decision to retain manufacturing capacity to meet increased demand when, or if, the market recovers. Gross margins earned by the Company's Composites and Structures segments, as a percent of sales, declined approximately 1.0% to 3.0% below those earned in 2000 due to various factors including the impact of the company-wide focus on dramatically reducing inventories ahead of 2002's anticipated fall-off in commercial aerospace revenues, higher utility costs and changes in sales mix. The Company's inventories declined \$23.7 million during 2001 to \$131.7 million. Utility costs in the United States for 2001 increased by approximately \$3.2 million compared to 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES: Selling, general and administrative expenses were \$120.9 million, or 12.0% of net sales, in 2001 compared with \$123.9 million, or 11.7% of net sales, in 2000. SG&A expenses, excluding the \$4.7 million of compensation expenses associated with the former CEO's retirement and giving effect to the sale of the Bellingham business as if it had occurred on January 1, 2000, were \$116.2 million, or 11.5% of net sales, in 2001 compared with \$121.3 million, or 11.7% of net sales, in 2000. This decrease reflected lower corporate expenses of \$4.1 million, of which \$2.2 million reflected costs incurred in connection with the change in control event in 2000. Amortization expense of \$12.5 million and \$13.1 million was included in SG&A expenses for 2001 and 2000, respectively.

41

RESEARCH AND TECHNOLOGY EXPENSES: Research and technology expenses were \$18.6 million, or 1.8% of net sales, in 2001 compared to \$21.2 million, or 2.0% of net sales, in 2000. Giving effect to the sale of the Bellingham aircraft interiors business as if it had occurred January 1, 2000, research and technology expenses would have been \$19.5 million in 2000, or 1.9% of net sales. Nearly seventy percent of R&T expenses in 2001 related to developing new applications for composite materials.

OPERATING INCOME: Operating loss for 2001 was \$316.2 million compared with operating income of \$75.4 million for 2000. Excluding a \$309.1 million impairment charged for goodwill and other purchased intangibles and \$4.7 million of compensation expenses associated with the former CEO's retirement in 2001, along with business consolidation and restructuring expenses of \$58.4 million and \$10.9 million incurred during 2001 and 2000, respectively, operating income would have been \$56.0 million, or 5.5% of net sales, in 2001 compared with \$86.3 million, or 8.2% of net sales, in 2000.

INTEREST EXPENSE: Interest expense for 2001 was \$64.8 million compared to \$68.7 million in 2000. Although the Company slightly increased its average borrowings during 2001 compared to 2000, interest expense declined when compared to 2000 due to lower weighted average interest rates on the Company's senior credit facility resulting from the progressive reductions in LIBOR during the year. Included in interest expense in 2001 are bank amendment fees of

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

approximately \$1.0 million related to the May 2001 amendment of certain financial covenants under the then existing senior credit facility.

PROVISION FOR INCOME TAXES: The Company's tax provision of \$40.5 million in 2001 reflected the impact of reduced tax benefits recorded for U.S. operating losses resulting from a change in business outlook for the Company and the inclusion in its tax provision of a \$30.7 million valuation allowance for previously reported U.S. deferred tax assets. In 2000, the provision for income taxes was \$26.3 million, which primarily related to a gain on the sale of the Bellingham aircraft interiors business.

EQUITY IN EARNINGS (LOSSES) OF AND WRITE-DOWNS OF AN INVESTMENT IN AFFILIATED COMPANIES: Equity in losses of affiliated companies was \$9.5 million in 2001, including a \$7.8 million write-down of the Company's investment in Interklas. Excluding the Interklas write-down, equity in losses of affiliated companies was \$1.7 million compared with earnings of \$5.5 million in 2000, reflecting the impact of the electronics industry downturn on the operating results of the Company's Reinforcements joint venture in Asia as well as start-up losses associated with the Structures joint ventures in China and Malaysia.

NET INCOME (LOSS) AND NET INCOME (LOSS) PER SHARE:

(IN MILLIONS, EXCEPT PER SHARE DATA)	2001	2000
Net income (loss)	\$ (433.7)	\$ 54.2
Diluted net income (loss) per share	\$ (11.54)	\$ 1.32
Diluted weighted average shares outstanding	37.6	45.7

The Company's convertible subordinated notes, due 2003, its convertible subordinated debentures, due 2011 and all of its stock options were excluded from the 2001 computation of diluted net loss per share, as they were antidilutive. Approximately 4.5 million stock options were excluded from the 2000 calculation of diluted net income per share as their exercise price was higher than the Company's average share price. Refer to Note 14 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A for the calculation and number of shares used for diluted net income (loss) per share.

IMPAIRMENT OF GOODWILL AND OTHER PURCHASED INTANGIBLES

During the fourth quarter of 2001, the Company reviewed its long-lived assets, particularly goodwill and other purchased intangibles acquired in recent years, for impairment. The review was undertaken in response to changes in market conditions and the Company's revised outlook resulting from a sharp decline in demand for the Company's woven glass fabrics, primarily in the electronics market, and the announced reductions in commercial airline production due to the tragic events of

September 11, 2001. The Company also revised its forecasts of revenue growth for its acquired satellite business due to the continuing slowdown in commercial satellite launches following the financial failures of a number of satellite based telecommunication projects and the postponement of others. These adverse changes in market conditions have led to the lowering of revenue forecasts

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

associated with certain businesses in the Reinforcements and Composites segments.

Based on this review, the Company determined that the long-lived assets of the fabrics business acquired from Clark-Schwebel in 1998 and the satellite business acquired from Fiberite, Inc. in 1997 were not fully recoverable. The Company recorded non-cash impairment charges of \$292.1 million and \$17.0 million related to the goodwill and other purchased intangibles associated with the Clark-Schwebel and Fiberite acquisitions, respectively. The amounts of the impairment charges were calculated as the excess of the carrying value of the assets over their fair values. Fair values were determined using discounted future cash flow models, market valuations and third party appraisals, where appropriate. There were no tax benefits recognized on the impairments because of limitations on the Company's ability to realize the tax benefits.

BUSINESS CONSOLIDATION AND RESTRUCTURING PROGRAMS

NOVEMBER 2001 PROGRAM

In November 2001, the Company announced a program to restructure its business operations in accordance with a revised business outlook for build rate reductions in commercial aircraft production, the continued depressed business conditions in the electronics market and the weakness in the general economy. The program targeted a 20% reduction in cash fixed costs, or \$60.0 million, compared to previous spending rates and included company-wide reductions in managerial, professional, indirect manufacturing and administrative employees along with organizational rationalization. In connection with the program, the Company recognized charges of \$47.9 million in the fourth quarter of 2001. During 2002, the Company continued the implementation of this program, reducing its workforce, since announcement, by approximately 25% to 4,245 employees and achieving a cash fixed cost reduction of 22.8% for the full year 2002 as compared to 2001.

In 2002, the Company recognized a net change in estimated business consolidation and restructuring expenses related to this program of \$0.7 million. This resulted from a \$1.8 million reduction of previously accrued liabilities as employee severance and other benefit costs were lower than previously expected, offset in part, by a \$1.1 million increase in restructuring liabilities for facility lease termination costs. An additional \$1.2 million was expensed as incurred in 2002.

JULY 2001 PROGRAM

As a result of the weakness in the electronics market, the Company initiated cost reduction actions in July 2001. These actions incorporated steps to furlough employees, idle manufacturing and cut non-essential expenditures, by effecting a reduction in the work force of approximately 275 employees primarily in the Reinforcements and Composites business segments. In connection with the program, the Company recognized a charge of \$3.9 million in the third quarter of 2001. During 2002, the Company reviewed its remaining liability under the program and recognized a change in estimated business consolidation and restructuring expenses of \$0.6 million, as employee severance and other benefit costs were lower than previously expected.

DECEMBER 1998 AND SEPTEMBER 1999 PROGRAMS

As a result of several substantial business acquisitions, the Company initiated business consolidation programs in December 1998 and September 1999. The primary purpose of these programs was to integrate acquired assets and operations into the Company, and to close or restructure insufficiently profitable facilities and activities. Due to aerospace industry requirements to "qualify" specific equipment and manufacturing processes for certain products,

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

some business consolidation actions have taken up to three years to complete. These qualification requirements increase the complexity, cost and time of moving equipment and rationalizing manufacturing activities. In connection with these business consolidation programs, the Company closed three manufacturing facilities, vacated approximately 560 thousand square feet of manufacturing space, and eliminated more than 700 manufacturing, marketing and administrative positions.

43

In 2000, the Company added two further actions to the September 1999 business consolidation program. The Company decided to close the two smaller of its four U.S. prepreg manufacturing facilities - one in Lancaster, Ohio and another in Gilbert, Arizona. The Gilbert, Arizona facility was closed in 2001 and the closure of the Lancaster, Ohio facility was completed in 2002. The manufacturing output from these two plants is now being produced by the two remaining U.S. prepreg facilities in Livermore, California and Salt Lake City, Utah. In connection with the program, including the program revisions, the Company recognized a charge of \$14.3 million in 2000.

In addition, during 2000, Hexcel amended its September 1999 business consolidation program in response to the manufacturing constraints caused by a stronger than expected increase in sales and production for its electronic woven glass fabrics and its ballistic protection products. Based on these improved market conditions and a manufacturing capacity review, the Company decided to expand its capacity by purchasing additional looms and revising the previous decision to consolidate a number of weaving activities at two of the Company's facilities. As a result of the decision not to proceed to consolidate production, the Company reversed a total of \$3.4 million of business consolidation expenses that were previously recognized in 1999, including \$3.1 million in non-cash write-downs of machinery and equipment that was to have been sold or scrapped as a result of the consolidation.

In 2002, the Company recognized a change in estimated business consolidation expenses related to this program of \$0.5 million, as actual employee severance was lower than previously expected. Business consolidation expenses for equipment relocation and re-qualification costs, expensed as incurred, were \$1.6 million and \$6.5 million in 2002 and 2001, respectively. Equipment relocation and re-qualification costs primarily related to the planned closure of the Lancaster, Ohio and Gilbert, Arizona pre-preg manufacturing facilities. In addition, the Company recognized a benefit on the sale of a previously idled Cleveland, Georgia facility of \$0.5 million by reversing expenses previously accrued in 1999.

The aggregate business consolidation and restructuring activities for the three years ended December 31, 2002, consisted of the following:

(IN MILLIONS)	EMPLOYEE SEVERANCE	FACILITY & EQUIPMENT
<hr style="border-top: 1px dashed black;"/>		
BALANCE AS OF JANUARY 1, 2000	\$ 3.5	\$ 0.6
Business consolidation expenses:		
Current period expenses	3.7	10.6
Reversal of 1999 business consolidation expenses	(0.3)	(3.1)
<hr style="border-top: 1px dashed black;"/>		
Net business consolidation expenses	3.4	7.5
Cash expenditures	(3.9)	(7.9)
Non-cash items:		

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Reversal of 1999 business consolidation expenses	-	3.1
Non-cash usage, including asset write-downs	(0.6)	(3.0)

Total non-cash items	(0.6)	0.1

BALANCE AS OF DECEMBER 31, 2000	\$ 2.4	\$ 0.3
Business consolidation and restructuring expenses	34.5	23.9
Cash expenditures	(6.4)	(5.6)
Non-cash usage, including asset write-downs	-	(15.7)

BALANCE AS OF DECEMBER 31, 2001	\$ 30.5	\$ 2.9
Business consolidation and restructuring expenses		
Current period expenses	-	2.8
Reversal of 1999 business consolidation expenses	-	(0.5)
Change in estimated expenses	(2.9)	1.1

Net business consolidation and restructuring expenses	(2.9)	3.4
Cash expenditures	(20.5)	(3.8)
Currency translation adjustment	0.9	-
Non-cash items:		
Reversal of 1999 business consolidation expenses	-	0.5
Non-cash usage, including asset write-downs	-	(0.5)

Total non-cash items	-	-

BALANCE AS OF DECEMBER 31, 2002	\$ 8.0	\$ 2.5
=====		

44

As of December 31, 2002, the December 1998, September 1999 and July 2001 programs have been substantially completed, while the November 2001 program will be substantially completed in 2003. Management will continue to closely monitor spending under the November 2001 program and evaluate opportunities that may exist for future actions, as the Company continues to right-size the business in response to existing conditions in the markets it serves.

RETIREMENT AND OTHER POSTRETIREMENT BENEFIT PLANS

Hexcel maintains qualified and nonqualified defined benefit retirement plans covering certain U.S. and European employees, as well as retirement savings plans covering eligible U.S. employees, and participates in a union sponsored multi-employer pension plan covering certain U.S. employees with union affiliates. In addition, Hexcel also provides certain postretirement health care and life insurance benefits to eligible U.S. retirees.

Hexcel accounts for its defined benefit retirement plans and its postretirement benefit plans using actuarial models required by Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively. These actuarial models require the use of certain assumptions, such as the expected long-term rate of return, discount rate, rate of compensation increase, healthcare cost trend rates, and retirement and mortality rates, to determine the net periodic costs of such plans. These assumptions are reviewed and set annually at the beginning of each year. In addition, these models use an "attribution approach" that generally spreads individual events, such as plan amendments and changes in actuarial assumptions, over the service lives of the employees in the plan. That is, employees render service over their service lives on a relatively smooth basis and therefore, the income statement effects of retirement and postretirement benefit plans are

earned in, and should follow, the same pattern.

Hexcel uses its long-term historical actual return experience, its expected investment mix of the plans' assets, and future estimates of long-term investment returns to develop its expected rate of return assumption used in the net periodic cost calculations of its U.S. and European defined benefit retirement plans. Due to the difficulty involved in predicting the market performance of certain assets, there will almost always be a difference in any given year between the Company's expected return on plan assets and the actual return. Following the attribution approach, each year's difference is spread over a number of future years. Over time, the expected long-term returns are designed to approximate the actual long-term returns and therefore result in a pattern of income and expense recognition that more closely matches the pattern of the services provided by the employees. As actual returns experience over the past three years were less than the expected returns for certain of the Company's defined benefit retirement plans, the shortfall between actual and expected returns will be recognized in the net periodic pension cost calculations over a number of subsequent years, along with any other differences arising in future years. In addition, as a result of a review of recent asset returns and expected future trends, the Company reduced its expected long-term return on the U.S. defined benefit retirement plan assets from a historical 9.0% to 7.5% for the 2003 plan year. This change, along with minor adjustments in the expected long-term rate of return on plan assets for certain European defined benefit retirement plans, is expected to result in additional net periodic pension costs in 2003.

Hexcel annually sets its discount rate assumption for retirement-related benefits accounting to reflect the rates available on high-quality, fixed-income debt instruments. Recent changes in discount rates have not had any significant impact on the Company's net periodic costs for the three years ended December 31, 2002. The discount rate assumption to be used to calculate net periodic retirement related costs in 2003 is 6.75% compared to a discount rate of 7.25% used in 2002. The rate of compensation increase, which is another significant assumption used in the actuarial model for pension accounting, is determined by the Company based upon its long-term plans for such increases and assumed inflation. Rates used by the Company have remained relatively constant over the past three years and are expected to remain constant for 2003. For the postretirement health care and life insurance benefits plan, the Company reviews external data and its historical trends for health care costs to determine the health care cost trend rates. Retirement and mortality rates are based primarily on actual plan experience.

45

Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect the net periodic costs and recorded obligations in such future periods. While management believes that the assumptions used are appropriate, significant changes in, economic or other conditions, employee demographics, retirement and mortality rates, and investment performance may materially impact such costs and obligations. For more information regarding costs and assumptions for the Company's retirement and other postretirement benefit plans, see Note 11 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A.

Effective December 31, 2000, the Company made certain changes to its U.S. defined benefit and retirement savings plans that were intended to improve the flexibility and visibility of future retirement benefits for employees. These changes included an increase in the amount that the Company will contribute to individual 401(k) retirement savings accounts and an offsetting curtailment of the Company's U.S. qualified defined benefit retirement plan. Beginning January

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

1, 2001, the Company started to contribute an additional 2% to 3% of each eligible employee's salary to an individual 401(k) retirement savings account, depending on the employee's age. This increased the maximum contribution to individual employee savings accounts to between 5% and 6% per year, before any profit sharing contributions. Offsetting the estimated incremental cost of this additional benefit, participants in the Company's U.S. qualified defined benefit retirement plan no longer accrued benefits under this plan after December 31, 2000, and no new employees will become participants. However, employees retained all benefits earned under this plan as of that date. The 2000 results included \$5.1 million of non-cash pre-tax income (equivalent to \$3.3 million of after-tax income) attributable to the curtailment of this defined benefit retirement plan.

SIGNIFICANT CUSTOMERS

Approximately 22%, 23% and 20% of the Company's 2002, 2001 and 2000 net sales, respectively, were to Boeing and its subcontractors. Of the 22% of sales to Boeing and its subcontractors in 2002, 17% and 5% related to commercial aerospace and space and defense market applications, respectively. Approximately 15%, 16% and 13% of the Company's 2002, 2001 and 2000 net sales, respectively, were to EADS, including Airbus, and its subcontractors. Of the 15% of sales to EADS and its subcontractors in 2002, 13% and 2% related to commercial aerospace and space and defense market applications, respectively.

SIGNIFICANT TRANSACTIONS

REFINANCING OF THE COMPANY'S CAPITAL STRUCTURE

On March 19, 2003, Hexcel successfully completed the refinancing of its capital structure through the simultaneous closings of three financing transactions: the completion of its previously announced sale of mandatorily redeemable convertible preferred stock for \$125.0 million, the issuance of \$125.0 million of 9-7/8% senior secured notes, due 2008, and the establishment of a new \$115.0 million senior secured credit facility, also due 2008.

The proceeds from the sale of the convertible preferred stock have been used to provide for the redemption of \$46.9 million principal amount of the Company's 7% convertible subordinated notes, due 2003, and to repay outstanding borrowings under the existing senior credit facility. Proceeds to be used to redeem the 7% convertible subordinated notes have been remitted to US Bank Trust, trustee for the notes, for the express purpose of retiring the outstanding principal balance of the notes, plus accrued interest.

The remaining advances under the existing senior credit facility, after the application of a portion of the equity proceeds, have been repaid with the proceeds from the issuance of the Company's new 9-7/8% senior secured notes and a new senior secured credit facility.

With the benefit of the financing transactions, the Company's next significant scheduled debt maturity will not occur until 2008, with annual debt and capital lease maturities ranging between \$6.2

46

million and \$12.5 million prior to 2008. Total debt as of March 19, 2003, after giving pro forma effect to these financing transactions and their related costs, was \$531.6 million.

Each of the material agreements governing the issuance and terms of the convertible preferred stock, the issuance and terms of the senior secured notes and the terms of the new senior secured credit facility is filed as an exhibit to this Annual Report on Form 10-K/A.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

On March 19, 2003, Hexcel issued 125,000 shares of a series A convertible preferred stock and 125,000 shares of a series B convertible preferred stock for \$125.0 million in cash. Upon issuance, the total number of Hexcel's outstanding common shares including potential shares issuable upon conversion of both of the new series of convertible preferred stocks increased from approximately 38.6 million shares to approximately 88.4 million shares. In addition, common shares authorized for issuance increased from 100.0 million shares to 200.0 million shares.

Hexcel issued 77,875 shares of series A convertible preferred stock and 77,875 shares of series B convertible preferred stock to affiliates of Berkshire Partners LLC and Greenbriar Equity Group LLC (the "Berkshire/Greenbriar Investors") for a cash payment of approximately \$77.9 million. The series A and the series B convertible preferred stocks are mandatorily redeemable on January 22, 2010 for cash or for common stock at the Company's election. Both preferred stocks are convertible, at the option of the holder, into common stock at a conversion price of \$3.00 per share, and will automatically be converted into common stock if the closing trading price of the common stock for any period of 60 consecutive trading days ending after March 19, 2006 exceeds \$9.00 per share. The preferred stockholders are entitled to vote on an as converted basis with Hexcel's common stockholders. The series A preferred stock accrues dividends at a rate of 6% per annum following the third anniversary of the issuance. Dividends may be paid in cash or added to the accrued value of the preferred stock, at Hexcel's option. The series B preferred stock does not accrue dividends. After giving effect to the issuances, the Berkshire/Greenbriar Investors own approximately 35.2% of Hexcel's outstanding voting securities.

Hexcel has separately issued 47,125 shares of series A convertible preferred stock and 47,125 shares of series B convertible preferred stock to investment funds controlled by affiliates of The Goldman Sachs Group, Inc. (the "Goldman Sachs Investors"), who currently own approximately 37.8% of Hexcel's outstanding common stock, for a cash payment of approximately \$47.1 million. This issuance of preferred stock enabled the Goldman Sachs Investors to maintain their current percentage ownership interest in Hexcel's voting securities, consistent with their rights under the governance agreement entered into with Hexcel in 2000.

In conjunction with the aforementioned transactions, Hexcel and the Berkshire/Greenbriar Investors entered into a stockholders agreement, which gives the Berkshire/Greenbriar Investors the right to nominate up to two directors (of a total of ten) to Hexcel's board of directors and certain other rights. The Goldman Sachs Investors will continue to have the right to nominate up to three directors under the governance agreement entered into at the time of their investment in Hexcel in 2000. The stockholders agreement and the amended Goldman Sachs Investors governance agreement require that the approval of at least six directors, including at least two directors not nominated by the Berkshire/Greenbriar Investors or the Goldman Sachs Investors, be obtained for board actions generally. The stockholders agreement also prohibits the purchase of voting securities in excess of 39.5% of Hexcel's outstanding voting securities unless approved by Hexcel's board. The Berkshire/Greenbriar Investors and the Goldman Sachs Investors have agreed to an 18-month lock up on the securities being issued, except for certain registered offerings.

SENIOR SECURED NOTES, DUE 2008

The Company also issued, through a private placement under Rule 144A, \$125.0 million of 9 7/8% senior secured notes at a price of 98.95% of face value. The senior secured notes, due October 1, 2008, are secured by a first priority security interest in substantially all of Hexcel's and its domestic

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

subsidiaries' property, plant and equipment, intangibles, intercompany notes and other obligations receivable, and 100% of the outstanding voting stock of certain of Hexcel's domestic subsidiaries. In addition, the senior secured notes are secured by a pledge of 65% of the stock of

47

Hexcel's French and UK first-tier holding companies. This pledge of foreign stock is on an equal basis with a substantially identical pledge of such stock given to secure the obligations under the Company's new senior secured credit facility, described below. The senior secured notes are also guaranteed by Hexcel's material domestic subsidiaries. Hexcel has the ability to incur additional debt that would be secured on an equal basis by the collateral securing the senior secured notes. The amount of additional secured debt that may be incurred is currently limited to \$10.0 million, but may increase over time based on a formula relating to the total net book value of Hexcel's domestic property, plant and equipment.

The Company will pay interest on the notes on April 1st and October 1st of each year. The first payment will be made on October 1, 2003. The Company will have the option to redeem all or a portion of the notes at any time during the one-year period beginning April 1, 2006 at 104.938% of principal plus accrued and unpaid interest. This percentage decreases to 102.469% for the one-year period beginning April 1, 2007, and to 100.0% for the period beginning April 1, 2008. In addition, the Company may use the net proceeds from one or more equity offerings at any time prior to April 1, 2006 to redeem up to 35% of the aggregate principal amount of the notes at 109.875% of the principal amount, plus accrued and unpaid interest.

The indenture governing the senior secured notes contains many other terms and conditions, including limitations with respect to asset sales, incurrence of debt, granting of liens, the making of restricted payments and entering into transactions with affiliates.

Hexcel has agreed, under a registration rights agreement, to offer to all noteholders the opportunity to exchange their notes for new notes that are substantially identical to the existing notes except that the new notes will be registered with the Securities and Exchange Commission ("SEC") and will not have any restrictions on transfer. In the event that Hexcel cannot affect such an exchange, Hexcel will be required to file a shelf registration statement with the SEC to permit the noteholders to resell their notes generally without restriction.

SENIOR SECURED CREDIT FACILITY

Also on March 19, 2003, Hexcel entered into a \$115.0 million asset-backed senior secured credit facility with a new syndicate of lenders led by Fleet Capital Corporation as agent. The credit facility matures on March 31, 2008. Borrowers under the credit facility include, in addition to Hexcel Corporation, Hexcel's operating subsidiaries in the UK, Austria and Spain. The credit facility provides for borrowings of U.S. dollars, Pound Sterling and Euro currencies, including the issuance of letters of credit, with the amount available to each borrower dependent on the borrowing base of that borrower. For Hexcel Corporation and the UK borrower, the borrowing base is determined by an agreed percentage of eligible accounts receivable and eligible inventory, subject to certain reserves. The borrowing base of each of the Austrian and German borrowers is based on an agreed percentage of eligible accounts receivable, subject to certain reserves. In addition, the UK, Austrian and German borrowers have facility sublimits of \$12.5 million, \$7.5 million and \$5.0 million, respectively. Borrowings under the new facility bear interest at a floating rate based on either the agent's defined "prime rate" plus a margin

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

that can vary from 0.75% to 3.25% or LIBOR plus a margin that can vary from 2.25% to 3.25%. The margin in effect for a borrowing at any given time depends on the Company's fixed charge ratio and the currency denomination of such borrowing. The credit facility also provides for the payment of customary fees and expenses.

All obligations under the credit facility are secured by a first priority security interest in accounts receivable, inventory and cash and cash equivalents of Hexcel Corporation and its material domestic subsidiaries. In addition, all obligations under the credit facility are secured by a pledge of 65% of the stock of Hexcel's French and UK first-tier holding companies. This pledge of foreign stock is on an equal basis with a substantially identical pledge of such stock given to secure the obligations under the senior secured notes. The obligations of the UK borrower are secured by the accounts receivable, inventory, and cash and cash equivalents of the UK borrower. The obligations of the Austrian and German borrowers are secured by the accounts receivable of the Austrian and German borrowers, respectively.

48

Hexcel is required to maintain various financial ratios throughout the term of the credit facility. These financial covenants set maximum values for the Company's leverage (the ratios of total and senior debt to EBITDA), fixed charge coverage (the ratio of EBITDA, less capital expenditures and cash taxes, plus cash dividends, to the sum of cash interest and scheduled debt amortization), and capital expenditures (not to exceed specified annual expenditures). The credit facility also contains limitations on, among other things, incurring debt, granting liens, making investments, making restricted payments, entering into transactions with affiliates and prepaying subordinated debt. The credit facility also contains other customary terms relating to, among other things, representations and warranties, additional covenants and events of default.

On March 19, 2003, the Company borrowed \$13.0 million and issued letters of credit totaling approximately \$25.8 million under the new senior secured credit facility.

CLASSIFICATION OF DEBT AND CAPITAL LEASE OBLIGATIONS AS OF DECEMBER 31, 2002

As of December 31, 2002, the Company had a scheduled debt obligation due August 1, 2003, which, if made, would cause the Company to violate one or more financial covenants in the Company's existing debt agreements. The Company also required an amendment of its existing senior credit facility before the end of the first quarter of 2003 to maintain compliance with the financial covenants under that facility. As the anticipated refinancing of the Company's capital structure was not completed as of February 28, 2003 (the 2002 financial statement issuance date) and the Company had not obtained an amendment of the aforementioned financial covenants, all debt and capital lease obligations had been classified as current at December 31, 2002.

As a result of the March 19, 2003 refinancing transactions, the uncertainties surrounding the Company's ability to meet its scheduled 2003 debt maturities and comply with its debt covenants have been mitigated. Management believes the Company will comply with the new debt covenants and has adequate liquidity available to finance operations beyond December 31, 2003. Also as a result of the refinancing transactions, substantially all of the Company's debt will be reclassified to long-term at March 31, 2003 reflecting the new scheduled debt maturities. The next significant scheduled debt maturity will not occur until 2008, with annual debt and capital lease maturities ranging between \$6.2 million and \$12.5 million prior to 2008. Refer to Note 24, "Subsequent Event - Pro Forma Consolidated Balance Sheet (Unaudited)."

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

PURCHASE OF APPROXIMATELY 14.5 MILLION SHARES OF HEXCEL COMMON STOCK BY AN INVESTOR GROUP

On December 19, 2000, the Goldman Sachs Investors completed the purchase of approximately 14.5 million of the approximately 18 million shares of Hexcel common stock owned by subsidiaries of Ciba Specialty Chemicals Holding, Inc. The shares acquired by the Goldman Sachs Investors represented approximately 39% of the Company's outstanding common stock. In addition, the Company and the Goldman Sachs Investors entered into a governance agreement that became effective on December 19, 2000. Under this governance agreement, the Goldman Sachs Investors have the right to, among other things, designate up to three directors to sit on the Company's board of directors. Upon the closing of the new preferred stock issuances, the Goldman Sachs Investors and the Company will amend the governance agreement, which will continue to give the Goldman Sachs Investors the right to designate up to three members to sit on the Company's board of directors.

In connection with this transaction, Hexcel incurred \$2.2 million of costs, all of which were included in "selling, general, and administrative expenses" during the fourth quarter of 2000. These costs and expenses included legal, consulting, and regulatory compliance expenses, as well as a non-cash charge attributable to the accelerated vesting of certain stock-based compensation and to certain amendments to an executive retirement plan.

SALE OF THE BELLINGHAM AIRCRAFT INTERIORS BUSINESS

On April 26, 2000, Hexcel sold its Bellingham aircraft interiors business to Britax Cabin Interiors, Inc., a wholly owned subsidiary of Britax International plc, for cash proceeds of \$113.3 million. The sale resulted in a pre-tax gain of \$68.3 million and an after-tax gain of \$44.3 million, or \$0.97 per diluted share. Net proceeds from the sale were used to repay \$111.6 million of outstanding term debt under the Company's Senior Credit Facility.

49

The Bellingham business generated net sales of \$18.9 million for the period from January 1 through April 26, 2000, and contributed \$0.6 million of operating income in the corresponding periods. The Bellingham business was engaged in the manufacture and sale of airline interior refurbishment products and its operating results were reflected as a component of the Company's Structures business segment up to the date of disposal.

FINANCIAL CONDITION

LIQUIDITY: As of December 31, 2002, the Company had cash and cash equivalents of \$8.2 million and available undrawn commitments under its existing senior credit facility of \$87.9 million. The Company's total debt, net of cash, was \$613.5 million, a decrease of \$60.8 million from \$674.3 million as of December 31, 2001. The decrease in net debt reflected cash generated from (a) reductions in capital expenditures compared to prior years; (b) significant reductions in working capital, as accounts receivable and inventory balances were managed lower to match sales and cost reduction programs; (c) collection of a litigation settlement; and (d) the sale of an ownership interest of an affiliated company. This reduction in net debt during 2002 was achieved despite incurring business consolidation and restructuring cash payments of \$24.3 million, cash interest payments of \$59.3 million and cash taxes of \$8.4 million.

CREDIT FACILITY: Hexcel had a global credit facility (the "Senior Credit Facility") with a syndicate of banks to provide for ongoing working capital and other financing requirements. The Senior Credit Facility, which consisted of revolving credit, overdraft and term loan facilities, provided Hexcel with committed lines of approximately \$297.6 million as of December 31, 2002, subject

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

to certain limitations. These commitments consisted of funded term loans of \$106.8 million, revolving credit and overdraft facilities of \$160.8 million, and letter of credit facilities of \$30.0 million. As of December 31, 2002, drawings under the revolving credit facility were \$72.9 million, leaving available, undrawn commitments under the facilities of \$87.9 million. As of December 31, 2002, letters of credit issued under the facility approximated \$24.2 million, of which \$11.1 million supports a loan to the Company's BHA Aero joint venture. The Company was subject to various financial covenants and restrictions under the Senior Credit Facility, including limitations on incurring debt, granting liens, selling assets, repaying subordinated indebtedness, redeeming capital stock and paying dividends. The Senior Credit Facility was scheduled to expire in 2004, except for approximately \$55.8 million of term loans that are due for repayment in 2005. The Senior Credit Facility was paid in full on March 19, 2003.

Effective January 25, 2002, Hexcel entered into an amendment of the Senior Credit Facility. The amendment provided for revised financial covenants through 2002; a 100 basis point increase in the interest spread payable over LIBOR for advances under the facility; and an immediate decrease in the commitment of revolving credit and overdraft facilities from a cumulative amount of \$205.0 million to \$190.0 million, with a further reduction to \$182.0 million on or before September 30, 2002. The amendment also provided for a 25 basis point increase on January 1, 2003 if the Company did not reduce the commitment by a further \$25.0 million, prior to that date. The 2002 revised, relaxed covenants were derived from the Company's 2002 business plan projections plus a modest cushion. The Senior Credit Facility financial covenants set certain maximum values for the Company's leverage (the ratios of total and senior debt to an adjusted EBITDA), and certain minimum values for its interest coverage (the ratio of an adjusted EBITDA to cash interest expense) and fixed charge coverage (the ratio of an adjusted EBITDA less capital expenditures to the sum of certain fixed expenses). The Senior Credit Facility agreement defined adjusted EBITDA as earnings before interest, taxes, depreciation, amortization, business consolidation and restructuring expenses and certain other non-cash income and expense. Adjusted EBITDA as defined by this agreement was \$109.4 million in 2002 and \$119.2 million in 2001. In addition, during the term of the amendment, all net proceeds generated through asset sales, and most other liquidity events, in each case to the extent in excess of \$2.5 million, and 100% of all net proceeds generated from litigation settlements and judgments, must be used to prepay loans under the Senior Credit Facility. Hexcel agreed to limit capital expenditures to \$25.0 million during 2002, with a \$10.0 million limit during any quarter in 2002. At December 31, 2002, the Company was in compliance with the covenants, as amended, under its Senior Credit Facility and has met all its required commitment reductions.

50

In connection with the credit agreement amendment, Hexcel also granted additional collateral. The Company had previously granted a security interest in most of its U.S. accounts receivable, inventory, property, plant, equipment and real estate. It had also pledged some or all of the shares of certain subsidiaries. Under the terms of the amendment, Hexcel granted to the banks a security interest in additional U.S. accounts receivable, inventory, property, plant, equipment and real estate, as well as its intellectual property. In addition, each of a group of Hexcel's European subsidiaries granted a security interest in its accounts receivable that secures certain local borrowings advanced to that subsidiary.

The Senior Credit Facility had been subject to several previous amendments to accommodate, among other things, the planned sale of assets, the planned investments in additional manufacturing capacity for selected products, the impact of the decline of the Company's operating results on certain financial covenants, the purchase by an investor group of approximately 14.5 million

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

shares of Hexcel common stock held by a significant shareholder of the Company, a restructuring of the ownership of certain of the Company's European subsidiaries, the issuance of additional senior subordinated debt and the early redemption of certain term debt. In connection with the 2002 and previous amendments, included in interest expense in 2002 and 2001 are fees and expenses incurred of approximately \$1.8 million and \$1.0 million, respectively.

The January 25, 2002 amendment relaxed the 2002 quarterly financial covenants to accommodate the impact of the downturn in the commercial aerospace and electronics markets. Under the terms of the amendment, the financial covenants effective beginning with the quarter ending March 31, 2003 are those that applied before the amendment. As these market conditions experienced in 2002 are expected to continue during 2003, the Company needed to obtain a further amendment of the facility before the end of the first quarter of 2003 to accommodate its projected financial performance for that quarter and be in compliance with the financial covenants as provided in the Senior Credit Facility agreement, or refinance the facility. The Company executed a refinancing of the facility on March 19, 2003.

OPERATING ACTIVITIES: Net cash provided by operating activities was \$65.9 million in 2002, reflecting positive working capital management and a reduced net loss, after excluding depreciation of \$47.2 million and equity in losses and write-downs of an investment in affiliated companies of \$10.0 million. Reductions in accounts receivable and inventory balances generated operating cash flows of \$35.6 million and \$25.8 million, respectively. The Company was able to generate substantial operating cash flows even after incurring restructuring cash payments of \$24.3 million and accounts payable and accrued liabilities decreasing by \$15.7 million during the year.

Net cash flows provided by operating activities were \$35.0 million in 2001. Although the Company's net loss for the year was \$433.7 million, its operating earnings generated \$22.8 million of cash in 2001 after excluding non-cash equity losses of \$9.5 million, \$309.1 million of non-cash impairment charges for goodwill and other purchased intangibles, \$63.2 million of non-cash depreciation and amortization charges, \$27.6 million of non-cash charges in deferred tax assets, \$0.7 million of non-cash extraordinary charges and \$46.4 million of non-cash and unpaid business consolidation and restructuring expenses. During 2001, working capital management resulted in reductions in accounts receivable and inventory balances. These reductions along with reductions in other assets were offset in part by increases in accounts payable and accrued expenses resulting in an increase in cash of \$12.2 million.

In 2000, net cash provided by operating activities was \$33.0 million with the major sources of cash provided by net income, excluding the after-tax gain from the sale of the Bellingham aircraft interiors business, of \$9.9 million and non-cash depreciation and amortization of \$58.7 million. However, these sources of operating cash flow were offset by \$5.5 million of non-cash income from affiliated companies and \$5.1 million of non-cash income from the curtailment of a U.S. defined benefit retirement plan. In addition, increases in accounts receivable and inventories used a total of \$24.7 million of cash.

51

INVESTING ACTIVITIES: Net cash used for investing activities was \$2.3 million in 2002. Cash used for capital expenditures of \$14.9 million was offset, in part, by the Company receiving \$10.0 million from a partial sale of an ownership interest in an affiliated company, \$1.5 million from the sale of other assets, and \$1.1 million net from other investing activities.

Net cash used for investing activities was \$38.3 million in 2001, primarily reflecting capital expenditures of \$38.8 million and the receipt of \$0.8 million

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

dividend from an affiliated company.

Net cash provided by investing activities was \$68.8 million in 2000, reflecting net cash proceeds from the sale of the Bellingham aircraft interiors business of \$113.3 million and from the sale of other assets of \$3.4 million, partially offset by \$39.6 million of capital expenditures and \$8.3 million of investments in joint venture affiliates in China and Malaysia.

FINANCING ACTIVITIES: Net cash used for financing activities was \$67.3 million in 2002, as the Company used excess cash to repay a portion of its Senior Credit Facility, and long-term debt and capital lease obligations.

Net cash provided by financing activities was \$8.6 million in 2001, largely due to net borrowings of \$12.5 million. During 2001, the Company issued an additional \$100.0 million of 9.75% senior subordinated notes, due 2009, at a price of 98.5% at face value. Net proceeds from the issuance were used to redeem \$67.5 million aggregate principal amount of the Company's outstanding convertible subordinated notes, due 2003, and to pay the entire principal amount of \$25.0 million of the increasing rate senior subordinated note, due 2003. In addition, the Company paid \$3.5 million of debt issuance costs.

Net cash used for financing activities was \$95.0 million in 2000, as net cash proceeds from the sale of the Bellingham aircraft interiors business were used to reduce outstanding indebtedness under the Company's Senior Credit Facility.

FINANCIAL OBLIGATIONS AND COMMITMENTS: As of December 31, 2002, scheduled current maturities of notes payable and capital lease obligations were \$61.9 million with a substantial debt repayment of \$46.9 million due on August 1, 2003 upon the maturity of the Company's 7% convertible subordinated notes. Scheduled amortization under the Company's existing Senior Credit Facility was approximately \$8.6 million in 2003. Capital lease amortization and operating lease rental payments in 2003 will approximate \$6.2 million and \$2.9 million, respectively. Limited credit and overdraft facilities of \$0.2 million provided to certain of the Company's European subsidiaries by lenders outside of the Senior Credit Facility are primarily uncommitted facilities that are terminable at the discretion of the lenders.

Prior to the refinancing transactions completed on March 19, 2003, the Company had a scheduled debt obligation due August 1, 2003, which, if made, would have caused the Company to violate one or more financial covenants defined in the Company's then existing debt agreements. The Company also required an amendment of its existing Senior Credit Facility before the end of the first quarter of 2003 to maintain compliance with its financial covenants. As the anticipated refinancing of the Company's capital structure was not completed as of February 28, 2003 (the 2002 financial statement issuance date) and the Company had not obtained an amendment of the aforementioned financial covenants, all notes payable and capital lease obligations have been classified as current at December 31, 2002. Refer to Notes 2, 8 and 9 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A for further information regarding the classification of notes payable and capital lease obligations.

The Senior Credit Facility consisted of revolving credit and overdraft facilities and term loan borrowings. Revolving credit borrowings under the facility of \$72.9 million are repayable in 2004. Term loan borrowings totaling \$106.8 million at December 31, 2002 are repayable in installments of \$8.6 million in 2003, \$42.4 million in 2004 and \$55.8 million in 2005.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The 7% convertible subordinated debentures, due 2011, are repayable under mandatory redemptions of \$1.8 million per annum through 2011, with the principal balance due at maturity. The Company satisfied the 2003 annual sinking fund requirement in the fourth quarter of 2002. The debt was repurchased at market prices, which resulted in a \$0.5 million gain on the early retirement of debt. In accordance with the requirements of FAS 145, the gain has been reported as a separate line item below operating income in the consolidated statements of operations. The \$340.0 million principal amount of the 9.75% senior subordinated notes is repayable in full in 2009.

The Company entered into a \$50.0 million capital lease in 1998 for property, plant and equipment used in the acquired Clark-Schwebel business. The lease expires in September 2006 and includes various purchase options. The last fixed price purchase option is on September 30, 2003 for an amount of \$24.9 million. If the Company does not exercise its purchase option, on the lease expiration date, the Company will have the option to purchase the leased assets at the greater of \$5.0 million or the fair value of the assets as of that date. The Company has also entered into several capital leases for buildings and warehouses with expirations through 2009. In addition, certain sales and administrative offices, data processing equipment and manufacturing facilities are leased under operating leases.

On June 29, 2001, the Company issued \$100.0 million of senior subordinated notes, due 2009, at a price of 98.5% of face value. Net proceeds from the issuance were used to redeem \$67.5 million aggregate principal amount of the Company's outstanding convertible subordinated notes, due 2003, and to pay the entire principal amount of \$25.0 million of the Company's increasing rate senior subordinated note, due 2003. The refinancing reduced the Company's 2003 debt maturities from \$149.5 million to \$57.6 million. The net impact of the refinancing is estimated to increase annual interest expense by approximately \$2.4 million before tax. The cash costs associated with the issuance and early retirements amounted to approximately \$6.5 million.

In 1999, the Company, Boeing and Aviation Industries of China (now known as China Aviation Industry Corporation I) formed a joint venture, BHA Aero Composite Parts Co., Ltd ("BHA Aero"), to manufacture composite parts for secondary structures and interior applications for commercial aircraft. Hexcel has a 33.3% equity interest in this joint venture, which is located in Tianjin, China. In addition, in 1999, the Company formed another joint venture, Asian Composites Manufacturing Sdn. Bhd. ("Asian Composites"), with Boeing, Sime Link Sdn. Bhd., and Malaysia Helicopter Services Bhd. (now known as Naluri Berhadto), to manufacture composite parts for secondary structures for commercial aircraft. Hexcel has a 25% equity ownership interest in this joint venture, which is located in Alor Setar, Malaysia. Asian Composites began shipping engineered products to customers during the second half of 2001, while BHA Aero began deliveries in early 2002. During 2000, Hexcel made cash equity investments totaling \$8.3 million in these joint ventures. No additional cash equity investments were made during 2002 and 2001. As of December 31, 2002 and 2001, the Company had an outstanding letter of credit of \$11.1 million in support of a loan to BHA Aero.

53

The following table summarizes the scheduled maturities of financial obligations and expiration dates of commitments for the years ended 2003 through 2007 and thereafter (see Notes 2 and 8 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A for discussion on the December 31, 2002 debt classification):

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

(IN MILLIONS)	2003	2004	2005	2006	2007
Senior Credit Facility	\$ 8.6	\$ 115.3	\$ 55.8	\$ -	\$ -
European credit and overdraft facilities	0.2	-	-	-	-
9.75% senior subordinated notes (a)	-	-	-	-	-
7.0% convertible subordinated notes	46.9	-	-	-	-
7.0% convertible subordinated debentures	-	1.8	1.8	1.8	1.8
Capital leases	6.2	6.6	7.0	10.7	10.7
SUBTOTAL	61.9	123.7	64.6	12.5	23.2
Operating leases	2.9	2.5	2.6	1.7	1.7
TOTAL FINANCIAL OBLIGATIONS (b)	\$ 64.8	\$ 126.2	\$ 67.2	\$ 14.2	\$ 24.9
Letters of credit	\$ 25.9	\$ -	\$ -	\$ -	\$ -
Other commitments	1.5	-	-	-	-
TOTAL COMMITMENTS	\$ 27.4	\$ -	\$ -	\$ -	\$ -

(a) At December 31, 2002, the unamortized discount on the additional \$100.0 million of 9.75% senior subordinated notes, issued June 29, 2002, was approximately \$1.2 million.

(b) Due to the subsequent closure of certain financing transactions, scheduled maturities have significantly changed. See Notes 2 and 24 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A for further discussion on such financing transactions and their impact on scheduled maturities.

Total letters of credit issued and outstanding were \$25.9 million as of December 31, 2002, of which \$11.1 million was issued in support of a loan to BHA Aero. While the letters of credit issued on behalf of the Company will expire under their terms in 2003, most, if not all, will be re-issued.

The Company's ability to make scheduled payments of principal, or to pay interest on, or to refinance its indebtedness, including its public notes, or to fund planned capital expenditures, will depend on its future performance and conditions in the financial markets. The Company's future performance is subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond its control. The Company has significant leverage and there can be no assurance that the Company will generate sufficient cash flow from its operations, or that it can incur sufficient future borrowings, to enable the Company to service its indebtedness, including its public notes, or to fund its other liquidity needs.

For further information regarding the Company's financial obligations and commitments, see Notes 2, 8, 9 and 16 to the accompanying consolidated financial statements of this Annual Report on Form 10-K/A.

CRITICAL ACCOUNTING POLICIES

Hexcel's discussion and analysis of its financial condition and results of operations are based upon Hexcel's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires Hexcel to make estimates and assumptions that affect the

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Although Hexcel evaluates its estimates, which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, on an on-going basis, actual results may differ from these estimates under different assumptions or conditions. Hexcel believes the following items are the Company's critical accounting policies and more significant estimates and assumptions used in the preparation of its consolidated financial statements.

54

Hexcel estimates the collectibility of its accounts receivable from customers by establishing allowances for doubtful accounts. A considerable amount of judgment is necessary to assess the realizability of these receivables and the credit-worthiness of each customer. If the financial condition of Hexcel's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Hexcel states inventories at the lower of cost or market. This requires Hexcel to write-down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value to reflect assumptions about future demand and market conditions. If actual future demand and market conditions are less favorable than anticipated, additional inventory write-downs may be required.

Hexcel provides for an estimated amount of product warranty at the time revenue is recognized. This estimated amount is provided by product and based on actual warranty experience. While Hexcel engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component and material suppliers, Hexcel's product warranty obligations are affected by product failure rates and material usage. Should actual product failure rates and material usage differ from the Company's estimates, revisions to the estimated product warranty costs would be required.

Hexcel records significant reserves in connection with its business consolidation and restructuring programs. These reserves include estimates for employee severance costs, the settlement of contractual obligations, the fair value of certain assets held for sale and the timing of facility closures. Management closely monitors these actions and the related costs, and believes such estimates to be reasonable. However, if actual results differ from these estimates, it would have an impact on Hexcel's financial performance in the period such revision was made. In addition, certain of the expenses associated with the Company's business consolidation programs, including equipment moving and relocation costs, can not be accrued under accounting principles generally accepted in the United States of America and are expensed as incurred.

Hexcel has recorded goodwill as a result of prior business acquisitions. Goodwill recorded represents the excess of purchase price over the fair value of the identifiable net assets of an acquired business. Effective January 1, 2002, Hexcel adopted Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets," ("FAS 142"). Prior to adopting FAS 142, goodwill was amortized on a straight-line basis over estimated economic lives, ranging from 15 years to 40 years. As a result of adopting FAS 142, goodwill is no longer amortized but instead is tested for impairment at the reporting unit level at least annually and whenever events or changes in circumstances indicate that goodwill might be impaired. A reporting unit is the lowest level of an entity that is a business and can be distinguished from other activities, operations, and assets of the entity. If, during the annual impairment review, the book value of the reporting unit exceeds the fair value, the implied fair value of the reporting unit's goodwill is compared with the carrying amount of the unit's goodwill. If the carrying amount exceeds the implied fair value, goodwill is

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

written down to its implied value. FAS 142 requires management to estimate the fair value of each reporting unit, as well as the fair value of the assets and liabilities of each reporting unit, other than goodwill. The implied fair value of goodwill is determined as the difference between the fair value of a reporting unit, taken as a whole, and the fair value of the assets and liabilities of such reporting unit. No impact to the Company's consolidated financial statements was identified upon completion of the transitional impairment test required by FAS 142. The Company's annual impairment testing date will be during the fourth quarter of each year. In 2001, the Company recognized an impairment charge of \$309.1 on goodwill and other purchased intangibles acquired through previous acquisitions (see Note 3 to the accompanying consolidated financial statements of this Annual Report on Form 10-K).

Hexcel has significant other long lived assets. Hexcel reviews these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the assets from the estimated undiscounted future net cash flows, before interest and taxes, of the related operations. If these cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The

55

measurement of impairment requires estimates of these cash flows and fair value. The calculation of fair value may be determined based either on discounted cash flows or third party appraised values depending on the nature of the asset.

Hexcel records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While Hexcel has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, these factors are highly subjective and are subject to change based upon market conditions, the Company's ability to execute its restructuring programs and other factors. In 2001, Hexcel recorded a valuation allowance against nearly all of its deferred tax assets. In the event Hexcel were to determine that it would be able to realize its deferred tax assets in the future, an adjustment to the valuation allowance on deferred tax assets would increase income in the period such determination was made. Likewise, should Hexcel determine that it would not be able to realize all or part of its remaining net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Hexcel holds equity interests in affiliated companies having operations or technology in areas within its strategic focus, one of which is publicly traded. Hexcel records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. This judgmental decision reflects many factors. Future adverse changes in market conditions or poor operating results of underlying investments could result in further losses or an inability to recover the carrying value of the investments, thereby possibly requiring an impairment charge in the future. The Company recorded investment impairment charges of \$4.0 million in 2002 and \$7.8 million in 2001, relating to its investments in Asahi-Schwebel Co. Ltd. and Interglas Technologies AG, respectively.

Hexcel has designated certain derivative financial instruments as foreign exchange hedges of future sales transactions at certain foreign subsidiaries. Unrealized losses on these foreign exchange contracts have not been recognized in the Company's consolidated statement of operations based on management's determination that the forecasted sales are probable of occurring and that the

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

hedges have been effective in mitigating the foreign exchange risks associated with these future sales. The hedging contracts cover only a portion of the forecasted sales, and therefore, management considers the likelihood of not reaching the designated level of forecasted sales to be low. However, if the designated levels of forecasted sales are not achieved in the timeframe that management anticipates, Hexcel would need to report the unrealized losses on these derivative instruments in income.

Hexcel is involved in litigation, investigations and claims arising out of the normal conduct of its business, including those relating to commercial transactions, as well as to environmental, health and safety matters. The Company estimates and accrues its liabilities resulting from such matters based on a variety of factors, including outstanding legal claims and proposed settlements; assessments by internal and external counsel of pending or threatened litigation; and assessments by environmental engineers and consultants of potential environmental liabilities and remediation costs. The Company believes it has adequately accrued for these potential liabilities; however, facts and circumstances may change that could cause the actual liability to exceed the estimates, or that may require adjustments to the recorded liability balances in the future.

MARKET RISKS

As a result of its global operating and financing activities, Hexcel is exposed to various market risks that may affect its consolidated results of operations and financial position. These market risks include fluctuations in interest rates, which impact the amount of interest the Company must pay on certain variable-rate debt, and fluctuations in currency exchange rates, which impact the U.S. dollar value of transactions, assets and liabilities denominated in foreign currencies. The Company's primary currency exposures are in Europe, where the Company has significant business activities. To a lesser extent, the Company is also exposed to fluctuations in the prices of certain commodities, such as electricity, natural gas, aluminum and certain chemicals.

Hexcel attempts to net individual exposures on a consolidated basis, when feasible, to take advantage of natural offsets. In addition, the Company employs and foreign currency forward

56

exchange contracts for the purpose of hedging certain specifically identified net currency exposures. The use of these financial instruments is intended to mitigate some of the risks associated with fluctuations in currency exchange rates, but does not eliminate such risks. The Company does not use financial instruments for trading or speculative purposes.

INTEREST RATE RISKS

Hexcel's long-term debt bears interest at both fixed and variable rates. As a result, the Company's consolidated results of operations are affected by interest rate changes on its variable rate debt. Assuming a 10% favorable and a 10% unfavorable change in the underlying weighted average interest rates of the Company's variable rate debt, interest expense for 2002 of \$62.8 million would have been \$61.5 million and \$64.1 million, respectively.

Hexcel's financial results are affected by interest rate changes on its variable rate debt. In order to partially mitigate this interest rate risk, the Company entered into a five-year interest rate cap agreement in 1998. The agreement provided for a maximum fixed rate of 5.5% on the applicable London interbank rate used to determine the interest on a notional amount of \$50.0 million of variable rate debt under the Senior Credit Facility. The fair value

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

and carrying amount of this contract at December 31, 2001, along with hedge ineffectiveness for the period ended October 29, 2002 and the year ended December 31, 2001, were not material. The interest rate cap agreement expired on October 29, 2002.

CURRENCY EXCHANGE RISKS

Hexcel has significant business activities in Europe. The Company operates seven manufacturing facilities in Europe, which generated approximately 44% of 2002 consolidated net sales. The Company's European business activities primarily involve three major currencies - the U.S. dollar, the British pound, and the Euro. The Company also conducts business or has joint venture investments in Japan, China, Malaysia, Australia and Brazil, and sells products to customers throughout the world. The majority of the Company's transactions with customers and joint venture affiliates outside of Europe are denominated in U.S. dollars, thereby limiting the Company's exposure to short-term currency fluctuations involving these countries. However, the value of the Company's investments in these countries could be impacted by changes in currency exchange rates over time, as could the Company's ability to profitably compete in international markets.

Hexcel attempts to net individual currency positions at its various European operations, to take advantage of natural offsets and reduce the need to employ foreign currency forward exchange contracts. The Company also enters 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 the Company's 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. During 2001, Hexcel entered into a number of foreign currency forward exchange contracts to exchange U.S. dollars for Euros at fixed rates on specified dates through March 2005. The aggregate notional amount of these contracts was \$58.0 million and \$83.9 million at December 31, 2002 and 2001, 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 the Company with a more balanced matching of future cash receipts and expenditures by currency, thereby reducing the Company's exposure to fluctuations in currency exchange rates. For the years ended December 31, 2002 and 2001, hedge ineffectiveness was immaterial and the fair value of the foreign currency cash flow hedges recognized in "comprehensive income (loss)" was a net gain of \$9.3 million and a net loss of \$5.9 million, respectively. Approximately \$2.0 million of the amounts recorded in other comprehensive income are expected to be reclassified into earnings in fiscal 2003 as the hedged sales are recorded.

57

Assuming a 10% increase in the value of the Euro relative to the U.S. dollar, the aggregate fair value of these contracts would constitute a \$9.2 million asset of the Company. Alternatively, assuming a 10% decrease in the value of the Euro relative to the U.S. dollar, the aggregate fair value of these contracts would represent a \$2.4 million liability of the Company.

UTILITY PRICE RISKS

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The Company has exposure to utility price risks as a result of volatility in the cost and supply of energy and in natural gas prices. To minimize this risk, the Company enters into fixed price contracts at certain of the manufacturing locations for a portion of its energy usage for periods of up to three years. Although these contracts would reduce the risk to the Company during the contract period, future volatility in the supply and pricing of energy and natural gas could have an impact on the consolidated results of operations of the Company.

OTHER RISKS

As of December 31, 2002, the aggregate fair values of the Company's senior subordinated notes, due 2009, convertible subordinated notes, due 2003, and the convertible subordinated debentures, due 2011, were approximately \$295.8 million, \$46.2 million and \$13.6 million, respectively. The convertible debt securities are convertible into Hexcel common stock at a price of \$15.81 and \$30.72 per share, respectively. Fair values were estimated on the basis of quoted market prices, although trading in these debt securities is limited and may not reflect fair value. The fair values are subject to fluctuations based on the Company's performance, its credit rating, and changes in interest rates for debt securities with similar terms. Due to the conversion feature in the convertible securities, changes in the value of the Company's stock may affect the fair value of these convertible securities.

Assuming that all other factors remain constant, the fair values of Hexcel's convertible subordinated notes, due 2003, and the convertible subordinated debentures, due 2011, would not be significantly impacted by a 10% change, either favorable or unfavorable, in the market price of the Company's common stock.

Although fair value may be a proxy for the cost to repay the Company's indebtedness, the trust indentures for the Company's senior subordinated notes, due 2009; convertible subordinated notes, due 2003; and convertible subordinated debentures, due 2011 require that the Company repay the principal value of the indebtedness at maturity.

RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("FAS 145"). Among other matters, FAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," which required all gains and losses from extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. The Company adopted FAS 145 as of January 1, 2002. As a result, a \$2.7 extraordinary loss on early retirement of debt recorded in 2001 was reclassified as a separate line item below operating income in its consolidated statements of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured, initially at fair value, only when the liability is incurred; therefore, nullifying Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3") that required a liability for an exit cost to be recognized at the date of an entity's commitment to an exit plan. This change in accounting would be expected to result in a delayed recognition of certain

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

types of costs, especially facility closure costs. The provisions of FAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. Since FAS 146 is effective only for new exit or

58

disposal activities, adoption of this standard will not affect amounts currently reported in the Company's consolidated financial statements. However, the adoption of FAS 146 could affect the types and timing of costs included in any future business consolidation and restructuring programs, if implemented. The Company adopted FAS 146 as of January 1, 2003.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." FAS 148 amends FAS 123 and APB Opinion No. 28, "Interim Financial Reporting" to present alternative methods of transition for an entity that voluntarily adopts the fair value based method of accounting for stock-based employee compensation, and provides modifications to the disclosure provisions to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation in quarterly and annual financial statements. At this time, the Company has not voluntarily adopted the fair value method of FAS 123. However, appropriate disclosures about the effects on reported net income of the Company's accounting policy with respect to stock-based employee compensation are provided.

In November 2002, the FASB issued Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN 45"). FIN 45 requires a guarantor to disclose (a) the nature of the guarantee, including the approximate term of the guarantee, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee; (b) the maximum potential amount of future payments under the guarantee; (c) the carrying amount of the liability, if any, for the guarantor's obligations under the guarantee; and (d) the nature and extent of any recourse provisions or available collateral that would enable the guarantor to recover the amounts paid under the guarantee. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability at fair value for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. As the disclosure requirements in FIN 45 are effective for financial statements ending after December 15, 2002, the Company included the new disclosure herein.

FIN 45 also addresses the disclosure requirements regarding product warranties. Instead of disclosing the maximum potential amount of future payments under the product warranty guarantee, a guarantor is required to disclose its accounting policy and methodology used in determining its liability for product warranties, as well as, a tabular reconciliation of the changes in the guarantor's product warranty liability for the reporting period.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This annual report includes 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

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

"anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will," and similar terms and phrases, including 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) estimates of commercial aerospace production and delivery rates, including those of Airbus and Boeing; (b) expectations regarding growth in sales to regional and business aircraft manufacturers, and to the aircraft aftermarket; (c) expectations regarding the growth in the production of military aircraft, helicopters and launch vehicle programs in 2003 and beyond; (d) expectations regarding the recovery of demand for electronics fabrics used in printed wiring boards, as well as future business trends in the electronics fabrics industry; (e) expectations regarding the demand for soft body armor made of aramid and specialty fabrics; (f) expectations regarding growth in sales of composite materials for

59

wind energy, automotive and other industrial applications; (g) estimates of changes in net sales by market compared to 2002; (h) expectations regarding the Company's equity in the earnings (losses) of joint ventures, as well as joint venture investments and loan guarantees; (i) expectations regarding working capital trends and capital expenditures; (j) the availability and sufficiency of the Senior Secured Credit Facility and other financial resources to fund the Company's worldwide operations in 2003 and beyond and (k) the impact of various market risks, including fluctuations in the interest rates underlying the Company's variable-rate debt, fluctuations in currency exchange rates, fluctuations in commodity prices, and fluctuations in the market price of the Company's common stock.

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 or Boeing; changes in sales mix; changes in government defense procurement budgets; changes in military aerospace programs technology; industry capacity; competition; disruptions of established supply channels; 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 Hexcel's operating results and financial position, neither past financial performance nor the Company's expectations should be considered reliable indicators of future performance. Investors should not use historical trends to anticipate results or trends in future periods. Further, the Company's stock price is subject to volatility. Any of the factors discussed above could have an adverse impact on the Company's 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 the Company's stock price. The Company does not undertake an obligation to update its forward-looking statements or risk factors to reflect future events or circumstances.

60

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

CONSOLIDATED FINANCIAL STATEMENTS

Description

Management Responsibility for Consolidated Financial Statements
Report of Independent Accountants
Consolidated Financial Statements Hexcel Corporation and Subsidiaries:
 Consolidated Balance Sheets as of December 31, 2002 and 2001
 Consolidated Statements of Operations for each of the three years ended December 31, 2002
 Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss)
 for each of the three years ended December 31, 2002
 Consolidated Statements of Cash Flows for each of the three years ended December 31, 2002
 Notes to the Consolidated Financial Statements

Independent Auditors' Report
Financial Statements BHA Aero Composite Parts Co. Ltd.:
 Balance Sheets as of December 31, 2002 and 2001
 Statements of Operations for each of the three years ended December 31, 2002
 Statements of Owners' Equity for each of the three years ended December 31, 2002
 Statements of Cash Flows for each of the three years ended December 31, 2002
 Notes to the Financial Statements

Report of Independent Accountants on Financial Statement Schedule
Schedule of Valuation and Qualifying Accounts

61

MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Hexcel management has prepared and is responsible for the consolidated financial statements and the related financial data contained in this report. These financial statements, which include estimates, were prepared in accordance with accounting principles generally accepted in the United States of America. Management uses its best judgment to ensure that such statements reflect fairly the consolidated financial position, results of operations and cash flows of the Company.

Hexcel maintains accounting and other control systems which management believes provide reasonable assurance that financial records are reliable for purposes of preparing financial statements, and that assets are safeguarded and accounted for properly. Underlying this concept of reasonable assurance is the premise that the cost of control should not exceed benefits derived from control.

The Audit Committee of the Board of Directors reviews and monitors the financial reports and accounting practices of Hexcel. These reports and practices are reviewed regularly by management and by the Company's independent accountants, PricewaterhouseCoopers LLP, in connection with the audit of the Company's consolidated financial statements. The Audit Committee, composed solely of outside directors, meets periodically, separately and jointly, with management and the independent accountants.

/s/ DAVID E. BERGES

David E. Berges

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

CHIEF EXECUTIVE OFFICER

/s/ STEPHEN C. FORSYTH

Stephen C. Forsyth
CHIEF FINANCIAL OFFICER

/s/ WILLIAM J. FAZIO

William J. Fazio
CHIEF ACCOUNTING OFFICER

62

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of Hexcel Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity (deficit) and comprehensive income (loss) and of cash flows present fairly, in all material respects, the financial position of Hexcel Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 3 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Stamford, Connecticut
February 28, 2003, except for Notes 2 and 8 which are as of March 19, 2003

63

HEXCEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31,

Unaudited
Pro Forma
(see Note 24)

(IN MILLIONS, EXCEPT PER SHARE DATA)

2002

2002

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

ASSETS

Current assets:

Cash and cash equivalents	\$	12.6	\$	8.2
Accounts receivable, net		117.3		117.3
Inventories, net		113.6		113.6
Prepaid expenses and other assets		9.2		9.2

Total current assets		252.7		248.3
----------------------	--	-------	--	-------

Net property, plant and equipment		309.4		309.4
Goodwill, net		74.4		74.4
Investments in affiliated companies		34.0		34.0
Other assets		46.9		42.0

Total assets	\$	717.4	\$	708.1
--------------	----	-------	----	-------

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

Notes payable and current maturities of capital lease obligations	\$	6.2	\$	621.7
Accounts payable		54.9		54.9
Accrued compensation and benefits		37.6		37.6
Accrued interest		15.9		19.1
Business consolidation and restructuring liabilities		10.5		10.5
Other accrued liabilities		35.3		35.3

Total current liabilities		160.4		779.1
---------------------------	--	-------	--	-------

Long-term notes payable and capital lease obligations		512.4		-
Long-term retirement obligations		48.1		48.1
Other non-current liabilities		8.3		8.3

Total liabilities		729.2		835.5
-------------------	--	-------	--	-------

Commitments and contingencies (see Note 16)

Mandatorily redeemable convertible preferred stock, 125,000 series A shares and 125,000 series B shares authorized, issued and outstanding		96.4		-
--	--	------	--	---

Stockholders' equity (deficit):

Preferred stock, no par value, 20.0 shares of stock authorized, no shares issued or outstanding		-		-
Common stock, \$0.01 par value, 100.0 shares of stock authorized, shares issued of 39.8 at December 31, 2002 and 39.4 at December 31, 2001		0.4		0.4
Additional paid-in capital		311.6		288.2
Accumulated deficit		(385.7)		(381.5)
Accumulated other comprehensive loss		(21.2)		(21.2)

		(94.9)		(114.1)
--	--	--------	--	---------

Less- Treasury stock, at cost, 1.3 shares at December 31, 2002 and 1.2 shares at December 31, 2001		(13.3)		(13.3)
--	--	--------	--	--------

Total stockholders' equity (deficit)		(108.2)		(127.4)
--------------------------------------	--	---------	--	---------

Total liabilities and stockholders' equity (deficit)	\$	717.4	\$	708.1
--	----	-------	----	-------

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

64

HEXCEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

(IN MILLIONS, EXCEPT PER SHARE DATA)	2002	2001
Net sales	\$ 850.8	\$ 1,009.4
Cost of sales	689.5	818.6
Gross margin	161.3	190.8
Selling, general and administrative expenses	85.9	120.9
Research and technology expenses	14.7	18.6
Business consolidation and restructuring expenses	0.5	58.4
Impairment of goodwill and other purchased intangibles	-	309.1
Operating income (loss)	60.2	(316.2)
Litigation gain	9.8	-
Interest expense	(62.8)	(64.8)
Gain (loss) on early retirement of debt	0.5	(2.7)
Gain on sale of Bellingham aircraft interiors business	-	-
Income (loss) before income taxes	7.7	(383.7)
Provision for income taxes	11.3	40.5
Income (loss) before equity in earnings (losses)	(3.6)	(424.2)
Equity in earnings (losses) of and write-downs of an investment in affiliated companies	(10.0)	(9.5)
Net income (loss)	\$ (13.6)	\$ (433.7)
Net income (loss) per share:		
Basic	\$ (0.35)	\$ (11.54)
Diluted	\$ (0.35)	\$ (11.54)
Weighted average shares:		
Basic	38.4	37.6
Diluted	38.4	37.6

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

65

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

HEXCEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE
INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(IN MILLIONS)	COMMON STOCK		RETAINED EARNINGS (ACCUMULATED DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY SHARES
	PAR	ADDITIONAL PAID-IN CAPITAL			
BALANCE, JANUARY 1, 2000	\$ 0.4	\$ 273.6	\$ 11.6	\$ (4.8)	\$ (10.7)
Net income			54.2		
Currency translation adjustment				(10.2)	
Minimum pension obligation				(5.0)	
Comprehensive income					
Activity under stock plans and other		7.1			(0.5)
BALANCE, DECEMBER 31, 2000	\$ 0.4	\$ 280.7	\$ 65.8	\$ (20.0)	\$ (11.2)
Net loss			(433.7)		
Currency translation adjustment				(12.1)	
Net unrealized loss on financial instruments				(5.9)	
Minimum pension obligation				(1.7)	
Comprehensive loss					
Activity under stock plans and other		7.0			(1.9)
BALANCE, DECEMBER 31, 2001	\$ 0.4	\$ 287.7	\$ (367.9)	\$ (39.7)	\$ (13.1)
Net loss			(13.6)		
Currency translation adjustment				19.6	
Net unrealized gain on financial instruments				9.3	
Minimum pension obligation				(10.4)	
Comprehensive loss					
Activity under stock plans and other		0.5			(0.2)
BALANCE, DECEMBER 31, 2002	\$ 0.4	\$ 288.2	\$ (381.5)	\$ (21.2)	\$ (13.3)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

HEXCEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

(IN MILLIONS)	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (13.6)	\$ (433.7)
Reconciliation to net cash provided by operations:		
Depreciation	47.2	50.7
Amortization of goodwill and other intangibles assets	-	12.5
Deferred income taxes	1.7	27.6
Business consolidation and restructuring expenses	0.5	58.4
Business consolidation and restructuring payments	(24.3)	(12.0)
Impairment of goodwill and other purchased intangibles	-	309.1
Loss (gain) on early retirement of debt	(0.5)	0.7
Gain on sale of Bellingham aircraft interiors business	-	-
Gain on curtailment of pension plan	-	-
Equity in (earnings) losses of and write-downs of an investment in affiliated companies	10.0	9.5
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	35.6	4.6
Decrease (increase) in inventories	25.8	20.6
Decrease (increase) in prepaid expenses and other assets	(1.7)	1.1
Increase (decrease) in accounts payable and accrued liabilities	(15.7)	(19.2)
Changes in other non-current assets and long-term liabilities	0.9	5.1
Net cash provided by operating activities	65.9	35.0
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(14.9)	(38.8)
Proceeds from sale of an ownership in an affiliated company	10.0	-
Proceeds from sale of Bellingham aircraft interiors business	-	-
Proceeds from sale of other assets	1.5	-
Dividends from (investments in) affiliated companies	1.6	0.8
Other	(0.5)	(0.3)
Net cash provided by (used for) investing activities	(2.3)	(38.3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (repayments) of credit facilities, net	(57.4)	24.6
Proceeds from issuance of long-term debt	-	98.5
Repayments of long-term debt and capital lease obligations	(9.9)	(110.6)
Debt issuance costs	-	(3.5)
Activity under stock plans and other	-	(0.4)
Net cash provided by (used for) financing activities	(67.3)	8.6
Effect of exchange rate changes on cash and cash equivalents	0.3	1.2
Net increase (decrease) in cash and cash equivalents	(3.4)	6.5
Cash and cash equivalents at beginning of year	11.6	5.1
Cash and cash equivalents at end of year	\$ 8.2	\$ 11.6

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS AND BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Hexcel Corporation and its subsidiaries ("Hexcel" or "the Company"), after elimination of intercompany transactions and accounts. Investments in affiliated companies in which the Company's interests are generally between 20% and 50%, and where the Company does not control the financial and operating decisions, are accounted for using the equity method of accounting.

Hexcel is a leading producer of advanced structural materials. The Company develops, manufactures and markets lightweight, high-performance reinforcement products, composite materials and composite structures for use in commercial aerospace, space and defense, electronics, and industrial applications. The Company's materials are used in a wide variety of end products, such as commercial and military aircraft, space launch vehicles and satellites, printed wiring boards, computers, cellular telephones, soft body armor, high-speed trains and ferries, cars and trucks, wind turbine blades, reinforcements for bridges and other structures, window blinds, skis, snowboards and other recreational equipment.

The Company serves international markets through manufacturing facilities and sales offices located in the United States and Europe, and through sales offices located in Asia, Australia and South America. The Company is also an investor in six joint ventures; three of which manufacture and market reinforcement products in Europe, Asia and the United States; one manufactures and markets composite materials in Japan; and two manufacture composite structures in Asia.

As discussed in Note 22, Hexcel sold its Bellingham aircraft interiors business on April 26, 2000. As a result of this transaction, the statements of operations, of stockholders' equity (deficit) and comprehensive income (loss), and of cash flows include the financial position, results of operations and cash flows of the Bellingham aircraft interiors business as of such dates and for such periods that the business was owned.

USE OF ESTIMATES

The preparation of the consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Estimates are used for, but not limited to, allowances for doubtful accounts, inventory allowances, product warranty, depreciation and amortization, business consolidation and restructuring costs, impairment of long-lived assets, employee benefits, taxes, and contingencies. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. These investments consist primarily of Eurodollar time deposits and are stated at cost, which approximates fair value.

INVENTORIES

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Inventories are valued at the lower of cost or market, with cost determined using the first-in, first-out and average cost methods. The Company provides allowances for obsolete and unmarketable inventory. As of December 31, 2002 and 2001, inventory allowances were \$21.3 million and \$25.1 million, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and depreciated over estimated useful lives using accelerated and straight-line methods. The estimated useful lives range from 10 to 40 years for buildings and improvements and from 3 to 20 years for machinery and equipment. Repairs and

68

maintenance are expensed as incurred, while major replacements and betterments are capitalized and depreciated over the estimated life of the related asset.

GOODWILL AND OTHER PURCHASED INTANGIBLES

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets of an acquired business. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets," ("FAS 142"). Prior to adopting FAS 142, goodwill was amortized on a straight-line basis over estimated economic lives, ranging from 15 to 40 years. As a result of adopting FAS 142, goodwill is no longer amortized, but instead is tested for impairment at the reporting unit level at least annually and whenever events or changes in circumstances indicate that goodwill might be impaired. A reporting unit is the lowest level of an entity that is a business and can be distinguished from other activities, operations, and assets of the entity. If, during the annual impairment review, the book value of the reporting unit exceeds the fair value, the implied fair value of the reporting unit's goodwill is compared with the carrying amount of the unit's goodwill. If the carrying amount exceeds the implied fair value, goodwill is written down to its implied value. FAS 142 requires management to estimate the fair value of each reporting unit, as well as the fair value of the assets and liabilities of each reporting unit, other than goodwill. The implied fair value of goodwill is determined as the difference between the fair value of a reporting unit, taken as a whole, and the fair value of the assets and liabilities of such reporting unit. No impact to the Company's consolidated financial statements was identified upon completion of the transitional impairment test required by FAS 142. The Company's annual impairment testing date will be during the fourth quarter of each year. In 2001, the Company recognized an impairment charge of \$309.1 million on goodwill and other purchased intangibles acquired through previous acquisitions (see Note 3).

IMPAIRMENT OF LONG-LIVED ASSETS

Other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the assets from the estimated undiscounted future net cash flows, before interest and taxes, of the related operations. If these cash flows are less than the carrying value of such assets, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires estimates of these cash flows and fair value. The calculation of fair value may be determined based either on discounted cash flows or third party appraised values depending on the nature of the asset.

INVESTMENTS

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The Company has investments in affiliated companies with equity interests ranging from 25% to 50%. Hexcel does not control the financial and operating decisions of these companies and, therefore, accounts for its share of their operating performance using the equity method of accounting. Future adverse changes in market conditions or poor operating results of the underlying investments could result in losses and the inability to recover the carrying value of the investments, thereby possibly requiring an impairment charge. The Company reviews its investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. The Company records an investment impairment charge when the decline in value is considered to be other than temporary. The Company recorded an impairment of \$4.0 million in 2002 and \$7.8 million in 2001, relating to its investments in Asahi-Schwebel Co. Ltd. and Interglas Technologies AG, respectively (see Note 7).

DEBT FINANCING COSTS

Debt financing costs are deferred and amortized to interest expense over the life of the related debt, which ranges from 7 to 10 years. At December 31, 2002 and 2001, deferred debt financing costs were \$11.7 million and \$15.5 million, net of accumulated amortization of \$14.5 million and \$10.7 million, respectively, and are included in "other assets" in the consolidated balance sheets.

69

STOCK-BASED COMPENSATION

Stock-based compensation is accounted for under the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Accordingly, compensation expense is not recognized when options are granted at the fair market value on the date of grant. However, the Company does recognize compensation expense for restricted stock and similar stock-based plans over the defined vesting periods. As of December 31, 2002, the Company had several on-going stock-based compensation plans, including stock options, restricted stock and various forms of restricted stock unit awards, which are described further in Note 13.

The Company has elected to continue following APB 25 to account for its stock-based compensation plans. The effects on net income (loss) and net income (loss) per share as if the Company had applied the fair value method of accounting for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123") for the years ended December 31, 2002, 2001 and 2000 are as follows:

(IN MILLIONS, EXCEPT PER SHARE DATA)	2002	2001
NET INCOME (LOSS):		
Net income (loss), as reported	\$ (13.6)	\$ (433.0)
ADD: Stock-based compensation expense included in reported net income, net of tax	0.8	2.0
DEDUCT: Stock-based compensation expense determined under fair value based method for all awards, net of tax	(6.0)	(5.0)
Pro forma net income (loss)	\$ (18.8)	\$ (437.0)

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

NET INCOME (LOSS) PER SHARE: Basic net income (loss) per share:

As reported	\$ (0.35)	\$ (11.5)
Pro forma	\$ (0.49)	\$ (11.6)
Diluted net income (loss) per share:		
As reported	\$ (0.35)	\$ (11.5)
Pro forma	\$ (0.49)	\$ (11.6)

CURRENCY TRANSLATION

The assets and liabilities of international subsidiaries are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates during the year. Cumulative currency translation adjustments are included in "accumulated other comprehensive loss" in the stockholders' equity section of the consolidated balance sheets. Realized gains and losses from currency exchange transactions are recorded in "selling, general and administrative expenses" in the consolidated statements of operations and were not material to Hexcel's consolidated results of operations in 2002, 2001 or 2000.

REVENUE RECOGNITION

Product sales are recognized when all significant contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured, which is generally at the time of shipment. Revenues derived from design, installation and support services are recognized when the service is provided, or alternatively, when the product to which the service relates is delivered to the customer. The Company accrues for sales returns and allowances based on its historical experience at the time of sale.

PRODUCT WARRANTY

The Company provides for an estimated amount of product warranty at the time revenue is recognized. This estimated amount is provided by product and based on historical warranty experience.

70

SHIPPING AND HANDLING COSTS

The Company recognizes shipping and handling costs as incurred as a component of "cost of sales" in the consolidated statements of operations. Shipping or handling costs billed to the customer for reimbursement purposes were not significant.

RESEARCH AND TECHNOLOGY

Research and technology costs are expensed as incurred.

INCOME TAXES

The Company provides for income taxes using the liability approach prescribed by the Financial Accounting Standards Board ("FASB") in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). Under the liability approach, deferred income tax assets and liabilities reflect tax carryforwards and the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Deferred tax assets require a valuation allowance when it is more likely than not that some portion of the deferred tax assets may not be

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

realized. The realization of deferred tax assets is dependent upon the timing and magnitude of future taxable income prior to the expiration of the deferred tax assets' attributes. When events and circumstances so dictate, the Company evaluates the realizability of its deferred tax assets and the need for a valuation allowance by forecasting future taxable income. In 2001, the Company established a full valuation allowance on its U.S. deferred tax assets. The amount of the deferred tax assets considered realizable, however, could change if estimates of future U.S. taxable income during the carry-forward period improve (see Note 12).

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Hexcel to significant concentrations of credit risk consist primarily of trade accounts receivable. The Company's sales to two customers and their related subcontractors accounted for approximately 37%, 39% and 33% of the Company's 2002, 2001 and 2000 net sales, respectively. The Company performs ongoing credit evaluations of its customers' financial condition but generally does not require collateral or other security to support customer receivables. The Company establishes an allowance for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends and other financial information. As of December 31, 2002 and 2001, the allowance for doubtful accounts was \$5.1 million and \$8.5 million, respectively. Bad debt expense was a net credit of \$(0.9) million in 2002, \$3.4 million in 2001 and \$0.7 million in 2000.

DERIVATIVE FINANCIAL INSTRUMENTS

Hexcel uses various financial instruments, including foreign currency forward exchange contracts and interest rate cap agreements, to manage its risk to market fluctuations by generating cash flows that offset, in relation to their amount and timing, the cash flows of certain foreign currency denominated transactions or underlying debt instruments. The Company designates its foreign currency forward exchange contracts as cash flow hedges against forecasted foreign currency denominated transactions and reports the effective portions of changes in fair value of the instruments in "other comprehensive income" until the underlying hedged transactions affect income. The Company designates its interest rate cap agreements as cash flow hedges against specific debt instruments and recognizes interest differentials as adjustments to interest expense as the differentials may occur. The most recent effective interest rate cap agreement expired on October 29, 2002. The Company does not use financial instruments for trading or speculative purposes.

Effective January 1, 2001, Hexcel adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and its corresponding amendments under Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," ("FAS 138"). FAS 133 requires an entity to recognize all derivatives as either assets or liabilities on its balance sheet and measure those instruments at fair value. Gains or losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The adoption of FAS 133 and FAS 138 did not have a material effect on the Company's consolidated financial position or results of operations (see Note 15).

SELF-INSURANCE

Hexcel is self-insured up to specific levels for certain liabilities. Accruals are established based on actuarial assumptions and historical claim experience, and include estimated amounts for incurred but not reported claims.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Effective January 1, 2002, Hexcel expanded its self-insured medical program to cover the majority of U.S. non-union employees, in order to more effectively manage its medical costs. The program includes "stop loss" insurance, which caps Hexcel's risk at \$250,000 per individual per annum. By its nature, as compared to traditional insurance plans, self-insured medical coverage may increase the monthly volatility in cash flows of the Company.

RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("FAS 145"). Among other matters, FAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," which required all gains and losses from extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. The Company adopted FAS 145 as of January 1, 2002. As a result, a \$2.7 million extraordinary loss on early retirement of debt recorded in 2001 was reclassified as a separate line item below operating income in the consolidated statements of operations (see Note 8).

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured, initially at fair value, only when the liability is incurred; therefore, nullifying Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3") that required a liability for an exit cost to be recognized at the date of an entity's commitment to an exit plan. This change in accounting would be expected to result in a delayed recognition of certain types of costs, especially facility closure costs. The provisions of FAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. Since FAS 146 is effective only for new exit or disposal activities, adoption of this standard will not affect amounts currently reported in the Company's consolidated financial statements. However, the adoption of FAS 146 could affect the types and timing of costs included in any future business consolidation and restructuring programs. The Company adopted FAS 146 as of January 1, 2003.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," ("FAS 148"). FAS 148 amends FAS 123 and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" to present alternative methods of transition for an entity that voluntarily adopts the fair value based method of accounting for stock-based employee compensation, and provides modifications to the disclosure provisions to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation in quarterly and annual financial statements. At this time, the Company has not voluntarily adopted the fair value method of accounting under FAS 123. However, appropriate disclosures about the effects on reported net income of the Company's accounting policy with respect to stock-based employee compensation are provided above.

In November 2002, the FASB issued Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN 45"). FIN 45 requires a guarantor to disclose (a) the nature of the guarantee, including the approximate term of the guarantee, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee; (b) the maximum potential amount of future payments under the guarantee; (c) the carrying amount

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

of the liability, if any, for the guarantor's obligations under the guarantee; and (d) the nature and extent of any recourse provisions or available collateral that would enable the guarantor to recover the amounts paid under the guarantee. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a

72

guarantee, a liability at fair value for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. As the disclosure requirements in FIN 45 are effective for financial statements with periods ending after December 15, 2002, the Company has included the new disclosures herein.

FIN 45 also addresses the disclosure requirements regarding product warranties. Instead of disclosing the maximum potential amount of future payments under the product warranty guarantee, a guarantor is required to disclose its accounting policy and methodology used in determining its liability for product warranties, as well as, a tabular reconciliation of the changes in the guarantor's product warranty liability for the reporting period (see Note 16).

RECLASSIFICATIONS

Certain prior year amounts in the accompanying consolidated financial statements and related notes have been reclassified to conform to the 2002 presentation.

NOTE 2 - REFINANCING OF CAPITAL STRUCTURE

On March 19, 2003, Hexcel successfully completed the refinancing of its capital structure through the simultaneous closings of three financing transactions: the completion of its previously announced sale of mandatorily redeemable convertible preferred stock for \$125.0 million, the issuance of \$125.0 million of 9-7/8% senior secured notes, due 2008, and the establishment of a new \$115.0 million senior secured credit facility, also due 2008.

The proceeds from the sale of the convertible preferred stock have been used to provide for the redemption of \$46.9 million principal amount of the Company's 7% convertible subordinated notes, due 2003, and to repay outstanding borrowings under the existing senior credit facility. Proceeds to be used to redeem the 7% convertible subordinated notes have been remitted to US Bank Trust, trustee for the notes, for the express purpose of retiring the outstanding principal balance of the notes, plus accrued interest.

The remaining advances under the existing senior credit facility, after the application of a portion of the equity proceeds, have been repaid with the proceeds from the issuance of the Company's new 9-7/8% senior secured notes and a new senior secured credit facility.

MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

On March 19, 2003, Hexcel issued 125,000 shares of a series A convertible preferred stock and 125,000 shares of a series B convertible preferred stock for \$125.0 million in cash. Upon issuance, the total number of Hexcel's outstanding common shares including potential shares issuable upon conversion of both of the

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

new series of convertible preferred stocks increased from approximately 38.6 million shares to approximately 88.4 million shares. In addition, common shares authorized for issuance increased from 100.0 million shares to 200.0 million shares.

Hexcel issued 77,875 shares of series A convertible preferred stock and 77,875 shares of series B convertible preferred stock to affiliates of Berkshire Partners LLC and Greenbriar Equity Group LLC (the "Berkshire/Greenbriar Investors") for a cash payment of approximately \$77.9 million. The series A and the series B convertible preferred stocks are mandatorily redeemable on January 22, 2010 for cash or for common stock at the Company's election. Both preferred stocks are convertible, at the option of the holder, into common stock at a conversion price of \$3.00 per share, and will automatically be converted into common stock if the closing trading price of the common stock for any period of 60 consecutive trading days ending after March 19, 2006 exceeds \$9.00 per share. The

73

preferred stockholders are entitled to vote on an as converted basis with Hexcel's common stockholders. The series A preferred stock accrues dividends at a rate of 6% per annum following the third anniversary of the issuance. Dividends may be paid in cash or added to the accrued value of the preferred stock, at Hexcel's option. The series B preferred stock does not accrue dividends.

Hexcel has separately issued 47,125 shares of series A convertible preferred stock and 47,125 shares of series B convertible preferred stock to investment funds controlled by affiliates of The Goldman Sachs Group, Inc. (the "Goldman Sachs Investors") for a cash payment of approximately \$47.1 million.

In conjunction with the aforementioned transactions, Hexcel and the Berkshire/Greenbriar Investors entered into a stockholders agreement, which gives the Berkshire/Greenbriar Investors the right to nominate up to two directors (of a total of ten) to Hexcel's board of directors and certain other rights. The Goldman Sachs Investors will continue to have the right to nominate up to three directors under the governance agreement entered into at the time of their investment in Hexcel in 2000. The stockholders agreement and the amended Goldman Sachs Investors governance agreement require that the approval of at least six directors, including at least two directors not nominated by the Berkshire/Greenbriar Investors or the Goldman Sachs Investors, be obtained for board actions generally. The stockholders agreement also prohibits the purchase of voting securities in excess of 39.5% of Hexcel's outstanding voting securities unless approved by Hexcel's board. The Berkshire/Greenbriar Investors and the Goldman Sachs Investors have agreed to an 18-month lock up on the securities being issued, except for certain registered offerings.

SENIOR SECURED NOTES, DUE 2008

The Company also issued, through a private placement under Rule 144A, \$125.0 million of 9 7/8% senior secured notes at a price of 98.95% of face value. The senior secured notes, due October 1, 2008, are secured by a first priority security interest in substantially all of Hexcel's and its domestic subsidiaries' property, plant and equipment, intangibles, intercompany notes and other obligations receivable, and 100% of the outstanding voting stock of certain of Hexcel's domestic subsidiaries. In addition, the senior secured notes are secured by a pledge of 65% of the stock of Hexcel's French and UK first-tier holding companies. This pledge of foreign stock is on an equal basis with a substantially identical pledge of such stock given to secure the obligations under the Company's new senior secured credit facility, described below. The senior secured notes are also guaranteed by Hexcel's material domestic

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

subsidiaries. Hexcel has the ability to incur additional debt that would be secured on an equal basis by the collateral securing the senior secured notes. The amount of additional secured debt that may be incurred is currently limited to \$10.0 million, but may increase over time based on a formula relating to the total net book value of Hexcel's domestic property, plant and equipment.

The Company will pay interest on the notes on April 1st and October 1st of each year. The first payment will be made on October 1, 2003. The Company will have the option to redeem all or a portion of the notes at any time during the one-year period beginning April 1, 2006 at 104.938% of principal plus accrued and unpaid interest. This percentage decreases to 102.469% for the one-year period beginning April 1, 2007, and to 100.0% for the period beginning April 1, 2008. In addition, the Company may use the net proceeds from one or more equity offerings at any time prior to April 1, 2006 to redeem up to 35% of the aggregate principal amount of the notes at 109.875% of the principal amount, plus accrued and unpaid interest.

The indenture governing the senior secured notes contains many other terms and conditions, including limitations with respect to asset sales, incurrence of debt, granting of liens, the making of restricted payments and entering into transactions with affiliates.

Hexcel has agreed, under a registration rights agreement, to offer to all noteholders the opportunity to exchange their notes for new notes that are substantially identical to the existing notes except that the new notes will be registered with the Securities and Exchange Commission ("SEC") and will not have any restrictions on transfer. In the event that Hexcel cannot affect such an exchange, Hexcel will be required to file a shelf registration statement with the SEC to permit the noteholders to resell their notes generally without restriction.

74

An affiliate of Goldman Sachs Investors, a related party, performed underwriting services in connection with the Company's private placement offering of senior secured notes, and received \$2.3 million for such services rendered.

SENIOR SECURED CREDIT FACILITY

Also on March 19, 2003, Hexcel entered into a \$115.0 million asset-backed senior secured credit facility with a new syndicate of lenders led by Fleet Capital Corporation as agent. The credit facility matures on March 31, 2008. Borrowers under the credit facility include, in addition to Hexcel Corporation, Hexcel's operating subsidiaries in the UK, Austria and Germany. The credit facility provides for borrowings of U.S. dollars, Pound Sterling and Euro currencies, including the issuance of letters of credit, with the amount available to each borrower dependent on the borrowing base of that borrower and its subsidiaries. For Hexcel Corporation and the UK borrower, the borrowing base is determined by an agreed percentage of eligible accounts receivable and eligible inventory, subject to certain reserves. The borrowing base of each of the Austrian and German borrowers is based on an agreed percentage of eligible accounts receivable, subject to certain reserves. In addition, the UK, Austrian and German borrowers have facility sublimits of \$12.5 million, \$7.5 million and \$5.0 million, respectively. Borrowings under the new facility bear interest at a floating rate based on either the agent's defined "prime rate" plus a margin that can vary from 0.75% to 3.25% or LIBOR plus a margin that can vary from 2.25% to 3.25%. The margin in effect for a borrowing at any given time depends on the Company's fixed charge ratio and the currency denomination of such borrowing. The credit facility also provides for the payment of customary fees and expenses.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

All obligations under the credit facility are secured by a first priority security interest in accounts receivable, inventory and cash and cash equivalents of Hexcel Corporation and its material domestic subsidiaries. In addition, all obligations under the credit facility are secured by a pledge of 65% of the stock of Hexcel's French and UK first-tier holding companies. This pledge of foreign stock is on an equal basis with a substantially identical pledge of such stock given to secure the obligations under the senior secured notes. The obligations of the UK borrower are secured by the accounts receivable, inventory, and cash and cash equivalents of the UK borrower. The obligations of the Austrian and German borrowers are secured by the accounts receivable of the Austrian and German borrowers, respectively.

Hexcel is required to maintain various financial ratios throughout the term of the credit facility. These financial covenants set maximum values for the Company's leverage (the ratios of total and senior debt to EBITDA), fixed charge coverage (the ratio of EBITDA, less capital expenditures and cash taxes, plus cash dividends, to the sum of cash interest and scheduled debt amortization), and capital expenditures (not to exceed specified annual expenditures). The credit facility also contains limitations on, among other things, incurring debt, granting liens, making investments, making restricted payments, entering into transactions with affiliates and prepaying subordinated debt. The credit facility also contains other customary terms relating to, among other things, representations and warranties, additional covenants and events of default.

On March 19, 2003, the Company borrowed \$13.0 million and issued letters of credit totaling approximately \$25.8 million under the new senior secured credit facility.

CLASSIFICATION OF DEBT AND CAPITAL LEASE OBLIGATIONS AS OF DECEMBER 31, 2002

As of December 31, 2002, the Company had a scheduled debt obligation due August 1, 2003, which, if made, would cause the Company to violate one or more financial covenants in the Company's existing debt agreements. The Company also required an amendment of its existing senior credit facility before the end of the first quarter of 2003 to maintain compliance with the financial covenants under that facility. As the anticipated refinancing of the Company's capital structure was not completed as of February 28, 2003 (the 2002 financial statement issuance date) and the Company had not obtained an amendment of the aforementioned financial covenants, all debt and capital lease obligations had been classified as current at December 31, 2002.

As a result of the March 19, 2003 refinancing transactions, the uncertainties surrounding the Company's ability to meet its scheduled 2003 debt maturities and comply with its debt covenants have been mitigated. Management believes the Company will comply with the new debt covenants and has

75

adequate liquidity available to finance operations beyond December 31, 2003. Also as a result of the refinancing transactions, substantially all of the Company's debt will be reclassified to long-term at March 31, 2003 reflecting the new scheduled debt maturities. Refer to Note 24, "Subsequent Event - Pro Forma Consolidated Balance Sheet (Unaudited)."

NOTE 3 - GOODWILL AND OTHER PURCHASED INTANGIBLES

Upon the Company's adoption of FAS 142 as of January 1, 2002, amortization of goodwill ceased. Although no amortization expense was recognized in 2002, the consolidated statements of operations include amortization expense of \$12.5 million in 2001 and \$13.1 million in 2000.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Net income (loss) and net income (loss) per share for the years ended December 31, 2002, 2001 and 2000, adjusted to exclude amortization expense, net of tax, are as follows:

(IN MILLIONS)	2002		2001	
NET INCOME (LOSS):				
Net income (loss)	\$	(13.6)	\$	(433.7)
Goodwill amortization, net of tax		-		11.2
Adjusted net income (loss)	\$	(13.6)	\$	(422.5)
BASIC NET INCOME (LOSS) PER SHARE:				
Net income (loss)	\$	(0.35)	\$	(11.54)
Goodwill amortization, net of tax		-		0.30
Adjusted basic net income (loss) per share	\$	(0.35)	\$	(11.24)
DILUTED NET INCOME (LOSS) PER SHARE:				
Net income (loss)	\$	(0.35)	\$	(11.54)
Goodwill amortization, net of tax		-		0.30
Adjusted diluted net income (loss) per share	\$	(0.35)	\$	(11.24)

The gross carrying amount and accumulated amortization of goodwill, by the Company's reportable segments, as of December 31, 2002 and 2001, are as follows:

(IN MILLIONS)	DECEMBER 31, 2002			DECEMBER 31, 2001	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Reinforcements	\$ 69.9	\$ 29.8	\$ 40.1	\$ 69.6	\$ 29.8
Composites	31.1	13.4	17.7	27.9	12.1
Structures	23.5	6.9	16.6	23.5	6.9
Goodwill	\$ 124.5	\$ 50.1	\$ 74.4	\$ 121.0	\$ 48.1

Changes in the net carrying amount of goodwill for the years ended December 31, 2002, 2001 and 2000, by reportable segment, are as follows:

(IN MILLIONS)	REINFORCEMENTS	COMPOSITES	STRUCTURES
BALANCE AS OF JANUARY 1, 2000	\$ 350.3	\$ 36.9	\$ 24.1
Amortization of goodwill and other			

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

purchased intangibles	(9.1)	(2.7)	(1.1)
Sale of Bellingham aircraft interiors business	-	-	(4.1)
Currency translation adjustment and other	-	(1.5)	

BALANCE AS OF DECEMBER 31, 2000	\$ 341.2	\$ 32.7	\$ 17.1
Amortization of goodwill and other			
purchased intangibles	(9.1)	(2.2)	(1.1)
Impairment of goodwill and other			
purchased intangibles	(292.1)	(17.0)	
Acquired goodwill	-	2.9	
Currency translation adjustment	(0.1)	(0.5)	

BALANCE AS OF DECEMBER 31, 2001	\$ 39.9	\$ 15.9	\$ 16.1
Currency translation adjustment	0.2	1.8	
=====			
BALANCE AS OF DECEMBER 31, 2002	\$ 40.1	\$ 17.7	\$ 16.1
=====			

As of December 31, 2002 and 2001, other purchased intangibles had no carrying value.

76

IMPAIRMENT OF GOODWILL AND OTHER PURCHASED INTANGIBLES

During the fourth quarter of 2001, the Company reviewed its long-lived assets under FASB Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," particularly goodwill and other purchased intangibles acquired in recent years, for impairment. The review was undertaken in response to changes in market conditions and the Company's revised business outlook resulting from a sharp decline in demand for the Company's woven glass fabrics, primarily in the electronics market, and the announced reductions in commercial airline production following the tragic events of September 11, 2001. The Company also revised its forecasts of revenue growth for its acquired satellite business due to the continuing slow down in commercial satellite launches following the financial failure of a number of satellite based telecommunication projects and the postponement of others. These adverse changes in market conditions led to the lowering of revenue forecasts associated with certain businesses in the Reinforcements and Composites segments.

Based on this review, the Company determined that the long-lived assets, including goodwill, of the fabrics business acquired from Clark-Schwebel in 1998 and the satellite business acquired from Fiberite in 1997 were not fully recoverable. The Company recorded non-cash impairment charges of \$292.1 million and \$17.0 million related to the goodwill and other purchased intangibles associated with the Clark-Schwebel and Fiberite acquisitions, respectively. The amounts of the impairment charges were calculated as the excess of the carrying value of the assets over their fair values. Fair values were determined using discounted future cash flow models, market valuations and third party appraisals, where appropriate. There were no tax benefits recognized on the impairments because of limitations on the Company's ability to realize the tax benefits.

NOTE 4 - BUSINESS CONSOLIDATION AND RESTRUCTURING PROGRAMS

The aggregate business consolidation and restructuring activities for the three years ended December 31, 2002, consisted of the following:

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

(IN MILLIONS)	EMPLOYEE SEVERANCE	FACILITY & EQUIPMENT
BALANCE AS OF JANUARY 1, 2000	\$ 3.5	\$ 0.6
Business consolidation expenses:		
Current period expenses	3.7	10.6
Reversal of 1999 business consolidation expenses	(0.3)	(3.1)
Net business consolidation expenses	3.4	7.5
Cash expenditures	(3.9)	(7.9)
Non-cash items:		
Reversal of 1999 business consolidation expenses	-	3.1
Non-cash usage, including asset write-downs	(0.6)	(3.0)
Total non-cash items	(0.6)	0.1
BALANCE AS OF DECEMBER 31, 2000	\$ 2.4	\$ 0.3
Business consolidation and restructuring expenses	34.5	23.9
Cash expenditures	(6.4)	(5.6)
Non-cash usage, including asset write-downs	-	(15.7)
BALANCE AS OF DECEMBER 31, 2001	\$ 30.5	\$ 2.9
Business consolidation and restructuring expenses		
Current period expenses	-	2.8
Reversal of 1999 business consolidation expenses	-	(0.5)
Change in estimated expenses	(2.9)	1.1
Net business consolidation and restructuring expenses	(2.9)	3.4
Cash expenditures	(20.5)	(3.8)
Currency translation adjustment	0.9	-
Non-cash items:		
Reversal of 1999 business consolidation expenses	-	0.5
Non-cash usage, including asset write-downs	-	(0.5)
Total non-cash items	-	-
BALANCE AS OF DECEMBER 31, 2002	\$ 8.0	\$ 2.5

77

NOVEMBER 2001 PROGRAM

In November 2001, the Company announced a program to restructure its business operations in accordance with a revised business outlook for build rate reductions in commercial aircraft production, the continued depressed business conditions in the electronics market and the weakness in the general economy. The program targeted a 20% reduction in cash fixed costs, or \$60.0 million, compared to previous spending rates and included company-wide reductions in managerial, professional, indirect manufacturing and administrative employees along with organizational rationalization. In connection with the program, the Company recognized charges of \$47.9 million in the fourth quarter of 2001. During 2002, the Company continued the implementation of this program in 2002, reducing its workforce, since announcement, by approximately 25% to 4,245 employees.

In 2002, the Company recognized a net change in estimated business consolidation and restructuring expenses related to this program of \$0.7

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

million. This resulted from a \$1.8 million reduction of previously accrued liabilities as employee severance and other benefit costs were lower than previously expected, offset in part, by a \$1.1 million increase in restructuring liabilities for facility lease termination costs. An additional \$1.2 million was expensed as incurred in 2002.

Business consolidation and restructuring activities for this program consisted of the following:

(IN MILLIONS)	EMPLOYEE SEVERANCE	FACILITY & EQUIPMENT
<hr/>		
BALANCE AS OF DECEMBER 31, 2000	\$ -	\$ -
Business consolidation and restructuring expenses	30.8	17.1
Cash expenditures	(3.2)	-
Non-cash usage, including asset write-downs	-	(14.3)
<hr/>		
BALANCE AS OF DECEMBER 31, 2001	\$ 27.6	\$ 2.8
Business consolidation and restructuring expenses		
Current period expenses	-	1.2
Change in estimated expenses	(1.8)	1.1
<hr/>		
Net business consolidation and restructuring expenses	(1.8)	2.3
Cash expenditures	(18.9)	(2.1)
Non-cash usage, including asset write-downs	-	(0.5)
Currency translation adjustment	0.9	-
<hr/>		
BALANCE AS OF DECEMBER 31, 2002	\$ 7.8	\$ 2.5
<hr/>		

JULY 2001 PROGRAM

As a result of the weakness in the electronics market, the Company initiated cost reduction actions in July 2001. These actions incorporated steps to furlough employees, idle manufacturing facilities and cut non-essential expenditures, by effecting a reduction in the work force of approximately 275 employees primarily in the Reinforcements and Composites business segments. In connection with the program, the Company recognized a charge of \$3.9 million in 2001. During 2002, the Company reviewed its remaining liability under the program and recognized a change in estimated business consolidation and restructuring expenses of \$0.6 million, as employee severance and other benefit costs were lower than previously expected.

Business consolidation and restructuring activities for this program consisted of the following:

(IN MILLIONS)	EMPLOYEE SEVERANCE	FACILITY & EQUIPMENT
<hr/>		
BALANCE AS OF DECEMBER 31, 2000	\$ -	\$ -
Business consolidation and restructuring expenses	3.6	0.3
Cash expenditures	(2.1)	(0.2)
<hr/>		
BALANCE AS OF DECEMBER 31, 2001	\$ 1.5	\$ 0.1
Change in estimated expenses	(0.6)	-

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Cash expenditures		(0.9)		(0.1)

BALANCE AS OF DECEMBER 31, 2002	\$	-	\$	-
=====				

78

DECEMBER 1998 AND SEPTEMBER 1999 PROGRAMS

As a result of several substantial business acquisitions, the Company initiated business consolidation programs in December 1998 and September 1999. The primary purpose of these programs was to integrate acquired assets and operations into the Company, and to close or restructure insufficiently profitable facilities and activities. Due to aerospace industry requirements to "qualify" specific equipment and manufacturing processes for certain products, some business consolidation actions have taken up to three years to complete. These qualification requirements increase the complexity, cost and time of moving equipment and rationalizing manufacturing activities. In connection with these business consolidation programs, the Company closed three manufacturing facilities, vacated approximately 560 thousand square feet of manufacturing space, and eliminated more than 700 manufacturing, marketing and administrative positions.

In 2000, the Company added two further actions to the September 1999 business consolidation program. The Company decided to close the two smaller of its four U.S. prepreg manufacturing facilities - one in Lancaster, Ohio and another in Gilbert, Arizona. The Gilbert, Arizona facility was closed in 2001 and the closure of the Lancaster, Ohio facility was completed in 2002. The manufacturing output from these two plants is now being produced by the two remaining U.S. prepreg facilities in Livermore, California and Salt Lake City, Utah. In connection with the program, including the program revisions, the Company recognized a charge of \$14.3 million in 2000.

In addition, during 2000, Hexcel amended its September 1999 business consolidation program in response to the manufacturing constraints caused by a stronger than expected increase in sales and production for its electronic woven glass fabrics and its ballistic protection products. Based on these improved market conditions and a manufacturing capacity review, the Company decided to expand its capacity by purchasing additional looms and revising the previous decision to consolidate a number of weaving activities at two of the Company's facilities. As a result of the decision not to proceed to consolidate production, the Company reversed a total of \$3.4 million of business consolidation expenses that were previously recognized in 1999, including \$3.1 million in non-cash write-downs of machinery and equipment that was to have been sold or scrapped as a result of the consolidation.

In 2002, the Company recognized a change in estimated business consolidation expenses related to this program of \$0.5 million, as actual employee severance was lower than previously expected. Business consolidation expenses for equipment relocation and re-qualification costs, expensed as incurred, were \$1.6 million and \$6.5 million in 2002 and 2001, respectively. Equipment relocation and re-qualification costs primarily related to the planned closure of the Lancaster, Ohio and Gilbert, Arizona prepreg manufacturing facilities. In addition, the Company recognized a benefit on the sale of a previously idled Cleveland, Georgia facility of \$0.5 million by reversing expenses previously accrued in 1999.

79

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Business consolidation activities for the December 1998 and September 1999 programs consisted of the following:

(IN MILLIONS)	EMPLOYEE SEVERANCE	FACILITY & EQUIPMENT
<hr/>		
BALANCE AS OF JANUARY 1, 2000 (a)	\$ 3.5	\$ 0.6
Business consolidation expenses:		
Current period expenses	3.7	10.6
Reversal of 1999 business consolidation expenses	(0.3)	(3.1)
<hr/>		
Net business consolidation expenses	3.4	7.5
Cash expenditures	(3.9)	(7.9)
Non-cash items:		
Reversal of 1999 business consolidation expenses	-	3.1
Non-cash usage, including asset write-downs	(0.6)	(3.0)
<hr/>		
Total non-cash items	(0.6)	0.1
<hr/>		
BALANCE AS OF DECEMBER 31, 2000	\$ 2.4	\$ 0.3
Business consolidation expenses	0.1	6.5
Cash expenditures	(1.1)	(5.4)
Non-cash usage, including asset write-downs	-	(1.4)
<hr/>		
BALANCE AS OF DECEMBER 31, 2001	\$ 1.4	\$ -
Business consolidation expenses		
Current period expenses	-	1.6
Reversal of 1999 business consolidation expenses	-	(0.5)
Change in estimated expenses	(0.5)	-
<hr/>		
Net business consolidation expenses	(0.5)	1.1
Cash expenditures	(0.7)	(1.6)
Non-cash reversal of 1999 business consolidation expenses	-	0.5
<hr/>		
BALANCE AS OF DECEMBER 31, 2002	\$ 0.2	\$ -
<hr/>		

(a) The December 1998 program had an accrued liability balance of \$1.0 million for employee severance at January 1, 2000, which was utilized during 2000.

As of December 31, 2002, the December 1998, September 1999 and July 2001 programs have been essentially completed, while the November 2001 program will be substantially completed in 2003. Management will continue to closely monitor spending under the November 2001 program and evaluate opportunities that may exist for future actions, as the Company continues to right-size the business in response to existing conditions in the markets it serves.

NOTE 5 - INVENTORIES

(IN MILLIONS)	DECEMBER 31,	
	2002	2001
<hr/>		
Raw materials	\$ 40.7	\$ 59.1
Work in progress	37.6	35.2
Finished goods	35.3	37.4

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Inventories	\$	113.6	\$	131.7
-------------	----	-------	----	-------

NOTE 6 - NET PROPERTY, PLANT AND EQUIPMENT

(IN MILLIONS)	DECEMBER 31,	
	2002	2001
Land	\$ 21.1	\$ 23.5
Buildings	140.2	132.7
Equipment	470.7	443.8
Construction in Progress	10.8	17.0
Property, plant and equipment	642.8	617.0
Less accumulated depreciation	(333.4)	(287.8)
Net property, plant and equipment	\$ 309.4	\$ 329.2

80

NOTE 7 - INVESTMENTS IN AFFILIATED COMPANIES

In 1999, Hexcel, Boeing International Holdings, Ltd. and Aviation Industries of China (now known as China Aviation Industry Corporation I) formed a joint venture, BHA Aero Composite Parts Co., Ltd. ("BHA Aero"), to manufacture composite parts for secondary structures and interior applications for commercial aircraft. Hexcel has a 33.3% equity ownership interest in this joint venture, which is located in Tianjin, China. In addition, in 1999, Hexcel formed another joint venture, Asian Composites Manufacturing Sdn. Bhd. ("Asian Composites"), with Boeing Worldwide Operations Limited, Sime Link Sdn. Bhd., and Malaysia Helicopter Services Bhd. (now known as Naluri Berhadto), to manufacture composite parts for secondary structures for commercial aircraft. Hexcel has a 25% equity ownership interest in this joint venture, which is located in Alor Setar, Malaysia. Asian Composites began shipping composite structures to customers during the second half of 2001, while BHA Aero began deliveries in the first half of 2002. During 2000, Hexcel made cash equity investments totaling \$8.3 million in these two joint ventures. No additional cash equity investments were made during 2002 and 2001. As of December 31, 2002 and 2001, the Company had an outstanding letter of credit of \$11.1 million in support of a loan to BHA Aero (see Note 16).

The Company also has equity ownership interests in three joint ventures which manufacture reinforcement products: a 43.6% share in Interglas Technologies AG ("Interglas"), headquartered in Germany; a 33.3% share in Asahi-Schwebel Co., Ltd. ("Asahi-Schwebel"), headquartered in Japan, which in turn owns interests in two joint ventures in Taiwan - a 50% interest in Nittobo Asahi Glass and a 51% interest in Asahi-Schwebel Taiwan; and a 50% share in Clark-Schwebel Tech-Fab Company ("CS Tech-Fab"), headquartered in the United States. Interglas and Asahi-Schwebel are fiberglass fabric producers serving the European and Asian manufacturers of printed circuit board laminates and other reinforcement product applications. CS Tech-Fab manufactures non-woven reinforcement materials for roofing, construction, sail cloth and other specialty applications.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

In 2002, the Company agreed with its Asian Electronics venture partner to restructure its minority interest in Asahi-Schwebel. Under the terms of the agreement, the Company reduced its ownership interest in the joint venture from 43.3% to 33.3% and received cash proceeds of \$10.0 million. The agreement also included, among other matters, a put option in favor of the Company to sell and a call option in favor of the Company's joint venture partner to purchase the Company's remaining ownership interest in the joint venture for \$23.0 million. The options are simultaneously effective for a six-month period beginning July 1, 2003. Reflecting these terms, the Company wrote-down the carrying value of its remaining equity investment in this joint venture to its estimated fair market value of \$23.0 million, recording a non-cash impairment charge of \$4.0 million. There was no tax benefit recognized on the write-down.

In 2001, the Company wrote-down its investment in Interglas by \$7.8 million. The write-down was the result of an assessment that an other-than-temporary decline in value of the investment had occurred due to a severe industry downturn and the resulting impact on the financial condition of this company. The amount of the write-down was determined based on available market information and appropriate valuation methodologies. The Company did not record deferred tax benefits on the write-down because of limitations imposed by foreign tax laws and the Company's ability to realize the tax benefits.

Lastly, Hexcel owns a 45% equity interest in DIC-Hexcel Limited ("DHL"), a joint venture with Dainippon Ink and Chemicals, Inc. ("DIC"). This joint venture is located in Komatsu, Japan, and produces and sells prepregs, honeycomb and decorative laminates using technology licensed from Hexcel and DIC. Hexcel is contingently liable to pay DIC up to \$1.5 million with respect to DHL's debt under certain defined circumstances through January 31, 2004, unless renewed. This contingent liability will cease upon DHL's repayment of the underlying loan.

81

Summarized condensed combined financial information for these joint ventures as of December 31, 2002 and 2001 and for the three years ended December 31, 2002 is as follows:

(IN MILLIONS)	DEC 2002
SUMMARIZED CONDENSED COMBINED BALANCE SHEETS	
Current assets	\$ 106.
Noncurrent assets	209.
Total assets	\$ 315.
Current liabilities	\$ 66.
Noncurrent liabilities	99.
Total liabilities	166.
Minority Interest	20.
Partners' equity	129.
Total liabilities and partners' equity	\$ 315.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

SUMMARIZED CONDENSED COMBINED STATEMENTS OF OPERATIONS	For the Year Ended	
	2002	2001
Net sales	\$ 232.7	\$ 276.5
Cost of sales	207.5	204.5
Gross profit	25.2	72.0
Other costs and expenses	78.6	76.5
Net income (loss)	\$ (53.4)	\$ (4.0)

NOTE 8 - NOTES PAYABLE

(IN MILLIONS)	DECEMBER 31, 2002
Senior Credit Facility	\$ 179.5
European credit and overdraft facilities	0.0
Senior subordinated notes, due 2009 (net of unamortized discount of \$1.2 and \$1.4 as of December 31, 2002 and 2001)	338.5
Convertible subordinated notes, due 2003	46.5
Convertible subordinated debentures, due 2011	22.5
Various notes payable	0.0
Total notes payable	588.5
Capital lease obligations	33.5
Total notes payable and capital lease obligations	\$ 621.5
Notes payable and current maturities of capital lease obligations	\$ 621.5
Long-term notes payable and capital lease obligations, less current maturities	0.0
Total notes payable and capital lease obligations	\$ 621.5

SENIOR CREDIT FACILITY

Hexcel had a global credit facility (the "Senior Credit Facility") with a syndicate of banks to provide for ongoing working capital and other financing requirements. The Senior Credit Facility, which consisted of revolving credit, overdraft and term loan facilities, provided Hexcel with committed lines of approximately \$297.6 million as of December 31, 2002, subject to certain limitations. These commitments consisted of funded term loans of \$106.8 million, revolving credit and overdraft facilities of \$160.8 million, and letter of credit facilities of \$30.0 million. As of December 31, 2002, drawings under the revolving credit facility were \$72.9 million, leaving undrawn commitments under the facilities of \$87.9 million. As of December 31, 2002, letters of credit issued under the facility approximated \$24.2 million, of which \$11.1 million supports a loan to the Company's BHA Aero joint venture. The Company was subject to various financial covenants and restrictions under the Senior Credit Facility, including limitations on incurring debt, granting liens, selling assets, repaying subordinated indebtedness, redeeming capital stock and paying

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

dividends. The Senior Credit Facility was scheduled to expire in 2004, except for approximately \$55.8 million of

82

term loans that are due for repayment in 2005. The Senior Credit Facility was paid in full on March 19, 2003 (see Note 2).

Effective January 25, 2002, Hexcel entered into an amendment of the Senior Credit Facility. The amendment provided for revised financial covenants through 2002; a 100 basis point increase in the interest spread payable over LIBOR for advances under the facility; and an immediate decrease in the commitment of revolving credit and overdraft facilities from a cumulative amount of \$205.0 million to \$190.0 million, with a further reduction to \$182.0 million on or before September 30, 2002. The amendment also provided for a 25 basis point increase on January 1, 2003 if the Company did not reduce the commitment by a further \$25.0 million, prior to that date. The Senior Credit Facility financial covenants set certain maximum values for the Company's leverage (the ratios of total and senior debt to an Adjusted EBITDA), and certain minimum values for its interest coverage (the ratio of an Adjusted EBITDA to cash interest expense) and fixed charge coverage (the ratio of an Adjusted EBITDA less capital expenditures to the sum of certain fixed expenses). In addition, during the term of the amendment, all net proceeds generated through asset sales, and most other liquidity events, in each case to the extent in excess of \$2.5 million, and 100% of all net proceeds generated from litigation settlements and judgments, must be used to prepay loans under the Senior Credit Facility. Hexcel also agreed to limit capital expenditures to \$25.0 million during 2002, with a \$10.0 million limit during any quarter in 2002. At December 31, 2002, the Company was in compliance with the covenants, as amended, under its Senior Credit Facility.

In connection with the credit agreement amendment, Hexcel also agreed to grant additional collateral. The Company had previously granted a security interest in most of its U.S. accounts receivable, inventory, property, plant, equipment and real estate. It had also pledged some or all of the shares of certain subsidiaries. Under the terms of the amendment, Hexcel granted to the banks a security interest in additional U.S. accounts receivable, inventory, property, plant, equipment and real estate, as well as its intellectual property. In addition, each of a group of Hexcel's European subsidiaries granted a security interest in its accounts receivable that secured certain local borrowings advanced to that subsidiary.

The Senior Credit Facility had been subject to several previous amendments to accommodate, among other things, the planned sale of assets, the planned investments in additional manufacturing capacity for selected products, the impact of the decline of the Company's operating results on certain financial covenants, the purchase by an investor group of approximately 14.5 million shares of Hexcel common stock held by a significant shareholder of the Company, a restructuring of the ownership of certain of the Company's European subsidiaries, the issuance of additional senior subordinated debt and the early redemption of certain term debt. In connection with the 2002 and previous amendments, included in interest expense in 2002 and 2001 are fees and expenses incurred of approximately \$1.8 million and \$1.0 million, respectively.

The January 25, 2002 amendment relaxed the 2002 quarterly financial covenants to accommodate the impact of the downturn in the commercial aerospace and electronics markets. Under the terms of the amendment, the financial covenants effective beginning with the quarter ending March 31, 2003 were to be those that applied before the amendment. As these market conditions experienced in 2002 are expected to continue during 2003, the Company needed to obtain a further amendment of the facility before the end of the first quarter of 2003 to accommodate its projected financial performance for that quarter and to be in

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

compliance with the financial covenants as provided in the Senior Credit Facility agreement, or refinance the facility. The Company executed a refinancing of the facility on March 19, 2003 (see Note 2).

83

The weighted average interest rate on the Senior Credit Facility was 7.71%, 8.50% and 11.55% for the years ended December 31, 2002, 2001 and 2000, respectively. During the three years ended December 31, 2002, interest rates have been in the following ranges:

	IN EXCESS OF THE APPLICABLE LONDON INTERBANK RATE	IN EXCESS OF THE THE ADMINISTRATIVE THE LENDER
	-----	-----
January 2002 to December 2002	2.00% - 4.25%	1.25% -
May 2001 to January 2002	1.00% - 3.25%	0.25% -
March 2000 to May 2001	0.75% - 3.00%	0.00% -
Prior to March 2000	0.75% - 2.50%	0.00% -
	-----	-----

The Senior Credit Facility was subject to a commitment fee varying from approximately 0.20% to 0.50% per annum of the total facility.

At December 31, 2001, Hexcel had an interest rate cap agreement outstanding which covered a notional amount of \$50.0 million of the Senior Credit Facility, providing a maximum fixed rate of 5.50% on the applicable London interbank rate. The agreement expired on October 29, 2002 (see Note 15).

EUROPEAN CREDIT AND OVERDRAFT FACILITIES

In addition to the Senior Credit Facility, certain of Hexcel's European subsidiaries have access to limited credit and overdraft facilities provided by various local banks. These credit and overdraft facilities are primarily uncommitted facilities that are terminable at the discretion of the lenders. The interest rates on these credit and overdraft facilities for the three years ended December 31, 2002, ranged from 1.5% to 6.6%.

SENIOR SUBORDINATED NOTES, DUE 2009

On January 21, 1999, the Company issued \$240.0 million of 9.75% senior subordinated notes, due 2009. On June 29, 2001, the Company offered an additional \$100.0 million under the same indenture at a price of 98.5% of face value. The senior subordinated notes are general unsecured obligations of Hexcel.

Net proceeds from the subsequent offering were used to redeem \$67.5 million aggregate principal amount of the Company's outstanding 7% convertible subordinated notes, due 2003, and to pay the entire principal amount of \$25.0 million of the increasing rate senior subordinated note, due 2003. As a result of the redemption, the Company recognized a \$2.7 million loss on the early retirement debt. With the adoption of FAS 145 on January 1, 2002, the \$2.7 million extraordinary loss on early retirement of debt recorded in 2001 was reclassified as a separate line item below operating income in the consolidated statements of operations. There was no tax benefit recognized on the loss because of limitations on the Company's ability to realize the tax benefits.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

CONVERTIBLE SUBORDINATED NOTES, DUE 2003

The convertible subordinated notes carry an annual interest rate of 7.00% and are convertible into Hexcel common stock at any time on or before August 1, 2003, unless previously redeemed, at a conversion price of \$15.81 per share, subject to adjustment under certain conditions. The convertible subordinated notes are redeemable, in whole or in part, at the Company's option at any time, at various redemption prices set forth in the convertible notes indenture, plus accrued interest. On June 29, 2001, \$67.5 million aggregate principal amount of the convertible subordinated notes was redeemed.

CONVERTIBLE SUBORDINATED DEBENTURES, DUE 2011

The convertible subordinated debentures carry an annual interest rate of 7.00% and are convertible into shares of Hexcel common stock prior to maturity, unless previously redeemed, at a conversion price of \$30.72 per share. Mandatory redemption of the convertible debentures was scheduled to begin in 2002 through annual sinking fund requirements of \$1.1 million in 2002 and \$1.8

84

million in each year thereafter. The Company satisfied the 2002 annual sinking fund requirement in 2001. In 2002, the Company recognized a \$0.5 million gain on the early retirement of debt, relating to the repurchase of \$1.8 million in satisfaction of the 2003 sinking fund requirement. The debt was repurchased at market prices, which resulted in a gain. In accordance with the requirements of FAS 145, the gain has been reported as a separate line item below operating income in the consolidated statements of operations.

INCREASING RATE SENIOR SUBORDINATED NOTE, DUE 2003

The increasing rate senior subordinated note, due 2003 was a general unsecured obligation payable to certain subsidiaries of Ciba Specialty Chemicals Holding, Inc. Effective February 1999, the interest rate on the note was 10.50% per annum, a rate which increased by 0.50% per annum each February thereafter until the repayment of principal. The average interest rate on the note was 11.42% in 2001 and 10.96% in 2000. The note was redeemed in full on June 29, 2001 with the proceeds of the \$100.0 million issuance of 9.75% senior subordinated notes, due 2009.

AGGREGATE MATURITIES OF NOTES PAYABLE

The table below reflects aggregate scheduled maturities of notes payable, excluding capital lease obligations (see Note 9):

Payable during the years ending December 31:	(IN MILLIONS)
-----	-----
2003	\$ 55.7
2004	117.1
2005	57.6
2006	1.8
2007	1.8
Thereafter	355.5
-----	-----
Total notes payable	\$ 589.5
=====	=====

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The aggregate maturities of notes payable in 2003 include European credit and overdraft facilities of \$0.2 million, which are repayable on demand. At December 31, 2002, the unamortized discount on the additional \$100.0 million senior subordinated notes, due 2009, issued on June 29, 2001, was \$1.2 million.

DEBT CLASSIFICATION AS OF DECEMBER 31, 2002

As described in Note 2, as the anticipated refinancing of the capital structure was not completed as of February 28, 2003 (the 2002 financial statement issuance date) and the Company had not obtained an amendment of the aforementioned financial covenants, all debt had been classified as current at December 31, 2002.

ESTIMATED FAIR VALUES OF NOTES PAYABLE

The Senior Credit Facility and the various European credit facilities outstanding as of December 31, 2002 and 2001 are variable-rate debt obligations. Accordingly, the estimated fair values of each of these debt obligations approximate their respective book values. The approximate, aggregate fair values of the Company's other notes payable as of December 31, 2002 and 2001 were as follows:

(IN MILLIONS)	2002	2001
Senior subordinated notes, due 2009	\$ 295.8	\$ 190.4
Convertible subordinated notes, due 2003	46.2	27.0
Convertible subordinated debentures, due 2011	13.6	15.5

The aggregate fair values of the above notes payable were estimated on the basis of quoted market prices; however, trading in these securities is limited and may not reflect actual fair value.

85

NOTE 9 - LEASING ARRANGEMENTS

Assets, accumulated depreciation, and related liability balances under capital leasing arrangements, as of December 31, 2002 and 2001, were:

(IN MILLIONS)	2002	2001
Property, plant and equipment	\$ 55.3	\$ 61.1
Less accumulated depreciation	(31.4)	(26.3)
Net property, plant and equipment	\$ 23.9	\$ 34.8
Capital lease obligations	\$ 33.4	\$ 38.4
Less current maturities	(6.2)	(5.6)
Long-term capital lease obligations, net	\$ 27.2	\$ 32.8

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Certain sales and administrative offices, data processing equipment and manufacturing facilities are leased under operating leases. Rental expense under operating leases was \$3.8 million in 2002, \$5.4 million in 2001, and \$7.0 million in 2000.

Scheduled future minimum lease payments as of December 31, 2002 were:

(IN MILLIONS)	TYPE OF LEASE	
Payable during years ending December 31:	CAPITAL	OPERATING
2003	\$ 8.7	\$ 2.9
2004	8.7	2.5
2005	8.5	2.6
2006	11.4	1.7
2007	0.5	0.7
Thereafter	3.4	2.0
Total minimum lease payments	\$ 41.2	\$ 12.4
Less amounts representing interest	7.8	
Present value of future minimum capital lease payments	33.4	
Less current obligations under capital leases	6.2	
Long-term obligations under capital lease	\$ 27.2	

CLASSIFICATION AS OF DECEMBER 31, 2002

As described in Note 2, the anticipated refinancing of the capital structure was not completed as of February 28, 2003 (the 2002 financial statement issuance date) and the Company has not obtained an amendment of the aforementioned financial covenants; therefore, all capital lease obligations have been classified as current at December 31, 2002.

NOTE 10 - RELATED PARTIES

CHANGE IN CONTROL

On December 19, 2000, the Goldman Sachs Investors completed a purchase of approximately 14.5 million of the approximately 18 million shares of Hexcel common stock owned by subsidiaries of Ciba Specialty Chemicals Holding, Inc. The shares acquired by the Goldman Sachs Investors represented approximately 39% of the Hexcel's outstanding common stock. In addition, the Company and the Goldman Sachs Investors entered into a governance agreement that became effective on December 19, 2000. Under this governance agreement, the Goldman Sachs Investors have the right to, among other things, designate up to three directors to sit on the Company's board of directors.

Hexcel incurred \$2.2 million of costs in connection with this transaction, all of which were included in "selling, general, and administrative expenses" in 2000. These costs and expenses included legal, consulting, and regulatory compliance expenses, as well as a non-cash charge attributable to the accelerated vesting of certain stock-based compensation and to certain amendments to an executive retirement plan. Under the terms of the Company's

various stock option and

86

management incentive plans, the transaction constituted a "change in control" event, resulting in all outstanding stock options becoming vested and exercisable. The former Chief Executive Officer waived the vesting of his stock options by such event. In addition, nine of the most senior executive officers other than the former Chief Executive Officer agreed to defer the vesting of their stock options such that any of their stock options that would have otherwise vested immediately (or would have otherwise vested by their terms) vested one year after the closing with respect to half of such options, and two years after the closing with respect to the remaining half of such options, subject to earlier vesting in certain circumstances. As a result, approximately 1.3 million stock options, with exercise prices ranging from \$2.41 to \$29.63 per share, and a weighted average exercise price of \$8.99 per share, vested and became exercisable on December 19, 2000 (see Note 13).

In addition, due to the change in control event, shares of the Hexcel's common stock underlying a total of approximately 0.8 million restricted stock units and performance accelerated restricted stock units (collectively, "stock units") were distributed. However, the former Chief Executive Officer waived the vesting of his stock units, and nine of the most senior executive officers other than the former Chief Executive Officer agreed to defer the distribution of shares underlying their stock units (although not the vesting of such stock units), such that any shares of common stock that would have otherwise been distributed immediately would be distributed one year after the closing with respect to half of such stock units, and two years after the closing with respect to the remaining half of such stock units, subject to earlier distribution under certain circumstances (see Note 13).

NOTE 11 - RETIREMENT AND OTHER POSTRETIREMENT BENEFIT PLANS

Hexcel maintains qualified and nonqualified defined benefit retirement plans covering certain U.S. and European employees, as well as retirement savings plans covering eligible U.S. employees. The defined benefit retirement plans are generally based on years of service and employee compensation under either a career average or final pay benefits method, except as described below. The Company also participates in a union sponsored multi-employer pension plan covering certain U.S. employees with union affiliations.

In addition to defined benefit and retirement savings plan benefits, Hexcel also provides certain postretirement health care and life insurance benefits to eligible U.S. retirees. Depending upon the plan, benefits are available to eligible employees who retire on or after age 58 or 65 after rendering a minimum of 15 years or 25 years of service to Hexcel.

Under the retirement savings plans, eligible U.S. employees can contribute up to 16% of their compensation to an individual retirement savings account. Hexcel makes matching contributions equal to 50% of employee contributions, not to exceed 3% of employee compensation. The Company also makes profit sharing contributions when it meets or exceeds certain performance targets, which are set annually.

Effective December 31, 2000, the Company made certain changes to its U.S. retirement benefit plans that were intended to improve the flexibility and visibility of future retirement benefits for employees. These changes included an increase in the amount that the Company will contribute to individual 401(k) retirement savings accounts and an offsetting curtailment of the Company's U.S. qualified defined benefit retirement plan. Beginning January 1, 2001, the Company started to contribute an additional 2% to 3% of each eligible employee's

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

salary to an individual 401(k) retirement savings account, depending on the employee's age. This increases the maximum contribution to individual employee savings accounts to between 5% and 6% per year, before any profit sharing contributions. Offsetting the estimated incremental cost of this additional benefit, participants in the Company's U.S. qualified defined benefit retirement plan no longer accrued benefits under this plan after December 31, 2000, and no new employees will become participants. However, employees retained all benefits earned under this plan as of that date. The Company recognized a non-cash curtailment gain of \$5.1 million (an after-tax gain of approximately \$3.3 million) in 2000 as a result of the amendment to its defined benefit retirement plan.

87

The net periodic expense for all of these defined benefit and retirement savings plans, for the three years ended December 31, 2002, was:

(IN MILLIONS)	2002	
Defined benefit retirement plans	\$ 6.8	\$
Union sponsored multi-employer pension plan	0.2	
Retirement savings plans-matching contributions	4.5	
Retirement savings plans-profit sharing and incentive contributions	6.5	
Net periodic expense	\$ 18.0	\$

The net periodic cost of Hexcel's defined benefit retirement and U.S. postretirement plans for the three years ended December 31, 2002, were:

(IN MILLIONS)	U.S. PLANS				EURO
DEFINED BENEFIT RETIREMENT PLANS	2002	2001	2000	2002	
Service cost	\$ 0.7	\$ 0.6	\$ 3.0	\$ 4.3	\$
Interest cost	1.6	1.8	1.8	3.0	
Expected return on plan assets	(1.4)	(1.4)	(1.3)	(4.1)	
Net amortization and deferral	0.5	0.5	0.4	1.7	
Sub-total	1.4	1.5	3.9	4.9	
Curtailment and settlement (gain) loss	0.5	1.0	(5.3)	-	
Net periodic pension cost (benefit)	\$ 1.9	\$ 2.5	\$ (1.4)	\$ 4.9	\$

POSTRETIREMENT PLANS - U.S. PLANS	2002	2001	2000
Service cost	\$ 0.1	\$ 0.2	\$ 0.2
Interest cost	0.8	1.0	1.0
Net amortization and deferral	(0.5)	(0.4)	(0.4)

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Net periodic postretirement benefit cost \$ 0.4 \$ 0.8 \$ 0.8
 =====

88

The benefit obligation, fair value of plan assets, funded status, and amounts recognized in the consolidated financial statements for Hexcel's defined benefit retirement plans and U.S. postretirement plans, as of and for the years ended December 31, 2002 and 2001, were:

(IN MILLIONS)	DEFINED BENEFIT RETIREMENT PLANS			
	U.S. PLANS		EUROPEAN PLANS	
	2002	2001	2002	2001
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation - beginning of year	\$ 27.7	\$ 24.1	\$ 56.3	\$ 49.8
Service cost	0.7	0.6	4.3	2.4
Interest cost	1.6	1.8	3.0	2.9
Plan participants' contributions	-	-	0.5	0.7
Amendments	0.6	1.8	-	-
Actuarial loss (gain)	1.0	3.6	(3.1)	2.4
Benefits paid	(4.7)	(1.9)	(1.0)	(0.8)
Curtailment and settlement (gain) loss	(1.0)	(2.3)	-	0.4
Foreign exchange translation	-	-	6.5	(1.5)
Benefit obligation - end of year	\$ 25.9	\$ 27.7	\$ 66.5	\$ 56.3
CHANGE IN PLAN ASSETS:				
Fair value of plan assets - beginning of year	\$ 14.5	\$ 14.7	\$ 51.9	\$ 60.4
Actual return on plan assets	(0.9)	(0.5)	(10.3)	(8.3)
Employer contributions	4.4	2.2	1.4	1.2
Plan participants' contributions	-	-	0.5	0.7
Benefits paid	(4.7)	(1.9)	(1.0)	(0.8)
Currency translation adjustments	-	-	5.0	(1.7)
Settlements	(1.5)	-	-	0.4
Fair value of plan assets - end of year	\$ 11.8	\$ 14.5	\$ 47.5	\$ 51.9
RECONCILIATION OF FUNDED STATUS TO NET AMOUNT RECOGNIZED:				
Unfunded status	\$ (14.1)	\$ (13.2)	\$ (19.0)	\$ (4.4)
Unrecognized actuarial loss (gain)	8.9	6.1	25.9	13.0
Unrecognized prior service cost	2.3	1.9	-	-
Net amount recognized	\$ (2.9)	\$ (5.2)	\$ 6.9	\$ 8.6
AMOUNTS RECOGNIZED IN CONSOLIDATED BALANCE SHEETS:				
Prepaid benefit costs	\$ -	\$ -	\$ 6.9	\$ 8.6
Intangible asset	1.7	1.5	-	-
Accrued benefit liability	(13.6)	(13.4)	(11.3)	-
Accumulated other comprehensive income				

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

(before tax for European Plans)	9.0	6.7	11.3	-
Net amount recognized	\$ (2.9)	\$ (5.2)	\$ 6.9	\$ 8.6

The total accumulated benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets was \$66.3 million and \$23.1 million as of December 31, 2002 and 2001, respectively. A minimum pension obligation was recorded to the extent such excesses exceed the liability recognized under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Offsetting amounts were recorded in "intangible assets" to the extent of unrecognized prior service costs, with the remainder recorded in "accumulated other comprehensive income." Amortization of loss and other prior service costs is calculated on a straight-line basis over the expected future years of service of the plans' active participants. Assets for the defined benefit pension plans generally consist of publicly traded equity securities, bonds and cash investments.

As of December 31, 2002 and 2001, the prepaid benefit cost was included in "other assets" in the accompanying consolidated balance sheets. For the same periods, the accrued benefit costs for the U.S. defined retirement plans and postretirement benefit plans were included in "accrued compensation and benefits" and "other non-current liabilities," respectively, in the accompanying consolidated balance sheets.

89

Assumptions used to estimate the actuarial present value of benefit obligations at December 31, 2002, 2001, and 2000 were as follows:

(IN MILLIONS)	2002	2001
U.S. defined benefit retirement plans:		
Discount rates	6.8%	7.3%
Rate of increase in compensation	4.5%	4.5%
Expected long-term rate of return on plan assets	9.0%	9.0%
European defined benefit retirement plans:		
Discount rates	5.3% - 6.0%	5.8% - 6.0%
Rates of increase in compensation	2.5% - 3.8%	2.5% - 4.0%
Expected long-term rates of return on plan assets	5.0% - 7.8%	5.8% - 7.0%
Postretirement benefit plans:		
Discount rates	6.8%	7.0% - 7.3%

The per capita cost of covered health care benefits increased by 22.0% in 2002. The annual rate of increase in the per capita cost of covered health care benefits is assumed to be approximately 6.6% for medical and 5.0% for dental and vision for 2003. The medical rates are assumed to gradually decline to 5.3% by 2012, whereas dental and vision rates are assumed to remain constant at 5.0%.

The table below presents the impact of a one-percentage-point increase and a one-percentage-point decrease in the assumed health care cost trend on the total of service and interest cost components, and on the postretirement benefit obligation.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

(IN MILLIONS)	2002	2001
One-percentage-point increase:		
Effect on total service and interest cost components	\$ 0.1	\$ 0.1
Effect on postretirement benefit obligation	\$ 0.8	\$ 1.1
One-percentage-point decrease:		
Effect on total service and interest cost components	\$ (0.1)	\$ (0.1)
Effect on postretirement benefit obligation	\$ (0.7)	\$ (0.9)

NOTE 12 - INCOME TAXES

Income (loss) before income taxes and the provision for income taxes, for the three years ended December 31, 2002, were as follows:

(IN MILLIONS)	2002	2001
Income (loss) before income taxes:		
U.S.	\$ (22.5)	\$ (411.9)
International	30.2	28.2
Total income (loss) before income taxes	\$ 7.7	\$ (383.7)
Provision for income taxes:		
Current:		
U.S.	\$ -	\$ -
International	9.6	12.9
Current provision for income taxes	9.6	12.9
Deferred:		
U.S.	0.5	30.7
International	1.2	(3.1)
Deferred provision for income taxes	1.7	27.6
Total provision for income taxes	\$ 11.3	\$ 40.5

90

A reconciliation of the provision for income taxes at the U.S. federal statutory income tax rate of 35% to the effective income tax rate, for the three years ended December 31, 2002, is as follows:

(IN MILLIONS)	2002	2001
---------------	------	------

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Provision for taxes at U.S. federal statutory rate	\$	2.7	\$	(134.3)
U.S. state taxes, less federal tax benefit		-		-
Impact of different international tax rates, permanent differences and other		0.1		(3.1)
Valuation allowance		8.5		177.9

Total provision for income taxes	\$	11.3	\$	40.5
=====				

In 2002, the Company received a dividend of \$74.0 million from one of its foreign subsidiaries, which is taxable for U.S. income tax purposes. The taxable income resulting from the dividend is fully offset by net operating losses. The utilization of net operating losses results in a corresponding reduction in the valuation allowance.

The Company has made no U.S. income tax provision for approximately \$80.4 million of undistributed earnings of international subsidiaries as of December 31, 2002. Such earnings are considered to be permanently reinvested.

DEFERRED INCOME TAXES

Deferred income taxes result from net operating loss carryforwards and temporary differences between the recognition of items for income tax purposes and financial reporting purposes. Principal components of deferred income taxes as of December 31, 2002 and 2001, were:

(IN MILLIONS)		2002		2001

Net operating loss carryforwards	\$	55.4	\$	70.0
Reserves and other, net		43.6		48.3
Accelerated depreciation		(27.0)		(23.5)
Accelerated amortization		94.9		92.3
Unfunded pension liability		6.7		2.4
Valuation allowance		(167.4)		(185.0)

Net deferred tax asset	\$	6.2	\$	4.5
=====				

Since 1999, the Company has generated taxable income in Europe offset by net operating loss ("NOL") carryforwards in the United States. The Company's U.S. operations have generated such losses, in part, because most of the Company's interest expense and goodwill amortization are serviced in the United States. Through the first quarter of 2001, the Company recognized the benefit of these NOL carryforwards by increasing the deferred tax asset carried on its balance sheet.

During the second quarter of 2001, the Company began to experience a sharp decline in revenues from its electronics market. As a result, the Company reevaluated its ability to continue to recognize a benefit for U.S. net operating losses generated, and determined to increase its tax provision rate through the establishment of a non-cash valuation allowance attributable to the currently generated U.S. net operating losses until such time as the U.S. operations return to consistent profitability. Due to the effect of significant events that have occurred since such time, including the delay in anticipated recovery in the electronics market, anticipated reductions in commercial aircraft production, and a general weakening of the economy, along with the sizable impairments on certain long-lived assets recognized in the fourth

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

quarter of 2001, the Company reduced its estimates for future U.S. taxable income during the carryforward period. As such, the Company established a full valuation allowance on its U.S. deferred tax assets, which resulted in a tax provision of \$32.6 million in the fourth quarter of 2001 to record a valuation allowance on previously reported tax assets.

Deferred tax assets require a valuation allowance when it is more likely than not that some portion of the deferred tax assets may not be realized. The realization of the deferred tax assets is dependent upon the timing and magnitude of future taxable income prior to the expiration of the deferred tax attributes. The amount of the deferred tax assets considered realizable, however, could change if estimates of future taxable U.S. income during the carry-forward period improve.

91

NET OPERATING LOSS CARRYFORWARDS

As of December 31, 2002, Hexcel had net operating loss carryforwards for U.S. federal and Belgium income tax purposes of approximately \$156.9 million and \$7.2 million, respectively. If the Company issues the new preferred stock described in Note 2, the Company will likely experience an "ownership change" pursuant to IRC Section 382, which will limit the Company's ability to utilize net operating losses against future U.S. taxable income.

NOTE 13 - STOCKHOLDERS' EQUITY (DEFICIT)

COMMON STOCK OUTSTANDING

(NUMBER OF SHARES IN MILLIONS)	2002	2001
<hr/>		
Common stock:		
Balance, beginning of year	39.4	38.0
Activity under stock plans	0.4	1.4
<hr/>		
Balance, end of year	39.8	39.4
<hr/>		
Treasury stock:		
Balance, beginning of year	1.2	0.9
Repurchased	0.1	0.3
<hr/>		
Balance, end of year	1.3	1.2
<hr/>		
Common stock outstanding	38.5	38.2
<hr/>		

STOCK-BASED INCENTIVE PLANS

Hexcel has various stock option and management incentive plans for eligible employees, officers, and directors. These plans provide for awards in the form of stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. Options to purchase common stock are generally granted at the fair market value on the date of grant. Substantially all of these options have a ten-year term and generally vest over a three-year period, except that the vesting period may be accelerated under certain circumstances. At December 31, 2002, the aggregate number of shares of stock

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

issuable under these plans was 9.9 million shares.

As of December 31, 2002, 2001, and 2000, Hexcel had outstanding a total of 0.1 million, 0.2 million and 0.7 million of performance accelerated restricted stock units ("PARS"), respectively. PARS are convertible to an equal number of shares of Hexcel common stock and generally vest at the end of a seven-year period, subject to certain terms of employment and other circumstances that may accelerate the vesting period. Approximately 0.1 million, 0.6 million and 0.2 million PARS were converted into Hexcel common stock in 2002, 2001 and 2000, respectively. In 2001 and 2000, 0.1 million and 0.5 million PARS were granted and 0.1 million and 0.7 million PARS vested, respectively. No PARS were granted in 2002.

In 2002, Hexcel granted 0.3 million restricted stock units to eligible officers. Restricted stock units are convertible to an equal number of shares of Hexcel common stock and generally vest ratably over a three-year period. One-third of the restricted stock units were converted to stock in the first quarter of 2003. In addition, the Company's Chief Executive Officer received approximately 0.1 million shares of common stock in connection with his hiring in July 2001, restricted during a twenty-month vesting period.

Compensation expense of \$0.8 million, \$2.0 million and \$4.5 million was recognized in 2002, 2001 and 2000, respectively, in regards to the PARS, restricted stock units and the Chief Executive Officer's restricted stock. In 2000, \$2.4 million of compensation expense was recognized due to accelerated vesting of PARS as a result of the attainment of certain financial and other performance target, as well as the change in control event. Compensation expense is recognized based on the quoted market price of Hexcel common stock on the date of grant.

92

Stock option data for the years ended December 31, 2002, 2001 and 2000, was:

(IN MILLIONS, EXCEPT PER SHARE DATA)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
<hr style="border-top: 1px dashed black;"/>		
Options outstanding as of January 1, 2000	5.9	\$ 11.18
Options granted	1.6	\$ 9.23
Options exercised	(0.3)	\$ 6.52
Options expired or canceled	(0.5)	\$ 11.85
<hr style="border-top: 1px dashed black;"/>		
Options outstanding as of December 31, 2000	6.7	\$ 10.56
Options granted	1.3	\$ 10.17
Options exercised	(0.2)	\$ 6.02
Options expired or canceled	(0.4)	\$ 10.72
<hr style="border-top: 1px dashed black;"/>		
Options outstanding as of December 31, 2001	7.4	\$ 10.62
Options granted	1.3	\$ 2.66
Options exercised	-	\$ -
Options expired or canceled	(0.8)	\$ 10.61
<hr style="border-top: 1px dashed black;"/>		
Options outstanding as of December 31, 2002	7.9	\$ 8.81
<hr style="border-top: 3px double black;"/>		

As previously discussed in Note 10, approximately 1.3 million of stock

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

options, with exercise prices ranging from \$2.41 to \$29.63 per share, and having a weighted average exercise price of \$8.99 per share, became vested as a result of the change in control event in 2000. The total number of options exercisable as of December 31, 2002, 2001 and 2000 were 5.7 million, 5.4 million and 3.9 million, respectively, at a weighted average exercise price per share of \$10.45, \$10.70 and \$10.80, respectively.

The following table summarizes information about stock options outstanding as of December 31, 2002 (in millions, except per share data):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE
	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE		
\$ 1.37 - 2.74	1.2	9.02	\$ 2.62	0.1	
\$ 2.87 - 6.36	1.2	4.37	\$ 5.55	1.1	
\$ 6.37 - 9.94	1.1	4.38	\$ 9.19	1.0	
\$ 9.95 - 10.50	1.1	8.53	\$ 10.45	0.3	
\$ 10.51 - 11.88	0.8	4.51	\$ 11.14	0.7	
\$ 11.89 - 12.11	1.5	3.98	\$ 12.00	1.5	
\$ 12.12 - 29.63	1.0	3.34	\$ 15.35	1.0	
\$ 1.37 - 29.63	7.9	5.70	\$ 8.81	5.7	

The weighted average fair value of stock options granted during 2002, 2001 and 2000 was \$1.96, \$4.87 and \$4.48, respectively, and estimated using the Black-Scholes model with the following weighted-average assumptions:

	2002	2001	2000
Expected life (in years)	5	4	4
Interest rate	2.78%	4.35%	6.50%
Volatility	88.6%	68.9%	40.1%
Dividend yield	-	-	-

EMPLOYEE STOCK PURCHASE PLAN ("ESPP")

Hexcel maintains an ESPP, under which eligible employees may contribute up to 10% of their base earnings toward the quarterly purchase of the Company's common stock at a purchase price equal to 85% of the fair market value of the common stock on the purchase date. The maximum number of shares of common stock reserved for issuance under the ESPP is 0.5 million. During 2002, 2001 and 2000, an aggregate total of approximately 0.2 million shares of common stock were issued under the ESPP.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Computations of basic and diluted net income (loss) per share for the years ended December 31, 2002, 2001 and 2000, are as follows:

(IN MILLIONS, EXCEPT PER SHARE DATA)	2002	2001
NET INCOME (loss):		
Net income (loss)	\$ (13.6)	\$ (433.7)
Effect of dilutive securities:		
Convertible subordinated notes, due 2003	-	-
Convertible subordinated debentures, due 2011	-	-
Adjusted net income (loss) for diluted purposes	\$ (13.6)	\$ (433.7)
BASIC NET INCOME (loss) PER SHARE:		
Weighted average common shares outstanding	38.4	37.6
Basic net income (loss) per share	\$ (0.35)	\$ (11.54)
DILUTED NET INCOME (loss) PER SHARE:		
Weighted average common shares outstanding	38.4	37.6
Effect of dilutive securities:		
Stock options	-	-
Convertible subordinated notes, due 2003	-	-
Convertible subordinated debentures, due 2011	-	-
Diluted weighted average common shares outstanding	38.4	37.6
Diluted net income (loss) per share	\$ (0.35)	\$ (11.54)

The convertible subordinated notes, due 2003, the convertible subordinated debentures, due 2011, and all of the stock options were excluded from the 2002 and 2001 computations of diluted net loss per share, as they were antidilutive. Approximately 4.5 million stock options were excluded from the 2000 calculation of diluted net income per share as their exercise price was higher than the Company's average stock price. The exercise price for these stock options ranged from approximately \$9.19 to \$29.63 per share, with the weighted average price being approximately \$12.55 per share.

NOTE 15 - DERIVATIVE FINANCIAL INSTRUMENTS

INTEREST RATE CAP AGREEMENT

The Company's financial results are affected by interest rate changes on its variable rate debt. In order to partially mitigate this interest rate risk, the Company entered into a five-year interest rate cap agreement in 1998. The agreement provided for a maximum fixed rate of 5.5% on the applicable London interbank rate used to determine the interest on a notional amount of \$50.0 million of variable rate debt under the Senior Credit Facility. The fair value and carrying amount of this contract at December 31, 2001, along with hedge ineffectiveness for the period ended October 29, 2002 and the year ended December 31, 2001, were not material. The interest rate cap agreement expired on October 29, 2002.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

FOREIGN CURRENCY FORWARD EXCHANGE CONTRACTS

A number of the Company's 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. During 2001, Hexcel entered into a number of foreign currency forward exchange contracts to exchange U.S. dollars for Euros at fixed rates on specified dates through March 2005. The aggregate notional amount of these contracts was \$58.0 million and \$83.9 million at December 31, 2002 and 2001, 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 the Company with a more balanced matching of future cash receipts and expenditures by currency, thereby reducing the Company's exposure to fluctuations in currency exchange rates. For the years ended December 31, 2002 and 2001, hedge

94

ineffectiveness was immaterial and the fair value of the foreign currency cash flow hedges recognized in "comprehensive income (loss)" was a net gain of \$9.3 million and a net loss of \$5.9 million, respectively. Approximately \$2.0 million of the amounts recorded in other comprehensive income is expected to be reclassified into earnings in fiscal 2003 as the hedged sales are recorded.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Hexcel is involved in litigation, investigations and claims arising out of the normal conduct of its business, including those relating to commercial transactions, as well as to environmental, employment and health and safety matters. The Company estimates and accrues its liabilities resulting from such matters based on a variety of factors, including outstanding legal claims and proposed settlements; assessments by internal and external counsel of pending or threatened litigation; and assessments by environmental engineers and consultants of potential environmental liabilities and remediation costs. Such estimates exclude counterclaims against other third parties and 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.

The Company believes that it has meritorious defenses and is taking appropriate actions against such matters. While it is impossible to ascertain the ultimate legal and financial liability with respect to certain contingent liabilities and claims, the Company believes, based upon its examination of currently available information, its 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 its existing insurance coverage and amounts already provided for, will not have a material adverse impact on the Company's consolidated results of operations, financial position or cash flows.

ENVIRONMENTAL CLAIMS AND PROCEEDINGS

Hexcel has been named as a potentially responsible party with respect to several hazardous waste disposal sites that it does not own or possess, which are included on the Superfund National Priority List of the U.S. Environmental Protection Agency or on equivalent lists of various state governments. Because CERCLA provides for joint and several liability, the Company could be responsible for all remediation costs at such sites, even if it is one of many potentially responsible parties ("PRPs"). The Company believes, based on the amount and the nature of its waste, and the number of other financially viable PRPs, that its liability in connection with such matters will not be material.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Pursuant to the New Jersey Industrial Sites Recovery Act, Hexcel signed an administrative consent order and a later Remediation Agreement to pay for the environmental remediation of a manufacturing facility it owns and formerly operated in Lodi, New Jersey. The ultimate cost of remediating the Lodi site will depend on developing circumstances.

Hexcel was 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 Company's Kent, Washington site by the U.S. Environmental Protection Agency. Under the terms of the cost-sharing agreement, the Company was 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.

At its Livermore, California facility, Hexcel has received a series of notices of violation of air quality standards from the Bay Area Air Quality Management District. Hexcel has investigated and corrected the issues and has cooperated with the District.

The Company's estimate of its liability as a PRP, of the remaining costs associated with its responsibility to remediate the Lodi, New Jersey, and Kent, Washington sites and for any fines and penalties that may be assessed relating to the Livermore, California notices of violation is accrued in the accompanying consolidated balance sheets.

95

OTHER PROCEEDINGS

Hexcel is aware of a grand jury investigation being conducted by the Antitrust Division of the United States Department of Justice with respect to the carbon fiber and carbon fiber prepreg industries. The Department of Justice appears to be reviewing the pricing of all manufacturers of carbon fiber and carbon fiber prepreg since 1993. The Company, along with other manufacturers of these products, has received a grand jury subpoena requiring production of documents to the Department of Justice. Toho Tenax Co. Ltd., one of their subsidiaries and one of their employees have been indicted for obstruction of justice; Toho and its subsidiary pleaded guilty to obstruction of justice and received a combined fine of \$500,000. No other indictments have been issued in the case to date. The Company is not in a position to predict the direction or outcome of the investigation; however, it is cooperating with the Department of Justice.

In 1999, Hexcel was joined in a class action lawsuit alleging antitrust violations in the sale of carbon fiber, carbon fiber industrial fabrics and carbon fiber prepreg (Thomas & Thomas Rodmakers, Inc. et. al. v. Newport Adhesives and Composites, Inc., et. al., Amended and Consolidated Class Action Complaint filed October 4, 1999, United States District Court, Central District of California, Western Division, CV-99-07796-GHK (CTx)). The Company was one of many manufacturers joined in the lawsuit, which was spawned from the Department of Justice investigation. The Court has granted the Plaintiff's motion to certify the class. Discovery is continuing. The Company is not in a position to predict the outcome of the lawsuit, but believes that the lawsuit is without merit as to the Company.

Of the eleven companies that have opted out of the class in the Thomas & Thomas Rodmakers, Inc. case, one, Horizon Sports Technologies, Inc., has filed a case on its own behalf, with similar allegations (Horizon Sports Technologies, Inc., v. Newport Adhesives and Composites, Inc., et. al., First Amended Complaint filed October 15, 2002, United States District Court, Central District

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

of California, Southern Division, SACV 02-911 DOC (MLGX)). The Company is not in a position to predict the outcome of the lawsuit, but believes that the lawsuit is without merit as to the Company.

The Company has also been joined as a party in numerous class action lawsuits in California and in Massachusetts spawned by the Thomas & Thomas Rodmakers, Inc. class action. These actions also allege antitrust violations and are brought on behalf of purchasers located in California and in Massachusetts, respectively, who indirectly purchased carbon fiber products. The California cases have been ordered to be coordinated in the Superior Court for the County of San Francisco and are currently referred to as Carbon Fibers Cases I, II and III, Judicial Council Coordinator Proceeding Numbers 4212, 4216 and 4222. The California cases are Lazio v. Amoco Polymers Inc., et.al., filed August 21, 2000; Proiette v. Newport Adhesives and Composite, Inc. et. al., filed September 12, 2001; Simon v. Newport Adhesives and Composite, Inc. et. al., filed September 21, 2001; Badal v. Newport Adhesives and Composite, Inc. et.al., filed September 26, 2001; Yolles v. Newport Adhesives and Composite, Inc. et.al., filed September 26, 2001; Regier v. Newport Adhesives and Composite, Inc. et.al., filed October 2, 2001; and Connolly v. Newport Adhesives and Composite, Inc. et.al., filed October 4, 2001; Elisa Langsam v Newport Adhesives and Composites, Inc, et al., filed October 4, 2001; Jubal Delong et al. v Amoco Polymers, Inc. et al., filed October 26, 2001; and Louis V. Ambrosio v Amoco Polymers, Inc. et. al., filed October 25, 2001. The Massachusetts case is Ostroff v. Newport Adhesives and Composites, Inc. et. al., filed June 7, 2002 in the Superior Court Department of the Trial Court of Middlesex, Massachusetts, Civil Action No. 02-2385. The Company is not in a position to predict the outcome of these lawsuits, but believes that the lawsuits are without merit as to the Company.

In 1999, a QUI TAM case was filed under seal by executives of Horizon Sports Technologies, Inc. alleging that Boeing and other prime contractors to the United States Government and certain carbon fiber and carbon fiber prepreg manufacturers, including the Company, submitted claims for payment to the U.S. Government which were false or fraudulent because the defendants knew of the alleged conspiracy to fix prices of carbon fiber and carbon prepreg described in the above cases (Beck, on behalf of the United States of America, v. Boeing Defense and Space Group, Inc., et. al., filed July 27, 1999, in the United States District Court for the Southern District of California, Civil Action No. 99 CV 1557 JM JAH). The case was unsealed in 2002 when the U.S. advised that it was unable to decide whether to intervene in the case based on the information available to it at that time and the Relators served the Company and other defendants. The Company is not in a position to predict the outcome of the lawsuit, but believes that the lawsuit is without merit as to the Company.

96

LETTERS OF CREDIT

Letters of credit are purchased guarantees that ensure the performance or payment to third parties in accordance with specified terms and conditions. The Company had \$25.9 million and \$19.4 million letters of credit outstanding at December 31, 2002 and 2001, respectively, of which \$11.1 million was issued in support of a loan to the Company's BHA Aero joint venture in 2001.

LOAN GUARANTEES

The Company has a contingent liability to pay DIC up to \$1.5 million with respect to DHL's debt (see Note 7).

PRODUCT WARRANTY

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

The Company provides for an estimated amount of product warranty at the time revenue is recognized. This estimated amount is provided by product and based on historical warranty experience. Warranty expense for the years ended December 31, 2002, 2001 and 2000, and accrued warranty cost, included in "other accrued liabilities" in the consolidated balance sheets at December 31, 2002 and 2001, was as follows:

(IN MILLIONS)	PRODUCT WARRANTIES	
BALANCE AS OF JANUARY 1, 2000	\$	6.6
Warranty expense		3.2
Deductions and other		(4.5)
BALANCE AS OF DECEMBER 31, 2000	\$	5.3
Warranty expense		6.0
Deductions and other		(6.3)
BALANCE AS OF DECEMBER 31, 2001	\$	5.0
Warranty expense		2.9
Deductions and other		(3.9)
BALANCE AS OF DECEMBER 31, 2002	\$	4.0

NOTE 17 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information, including non-cash financing and investing activities, for the years ended December 31, 2002, 2001 and 2000, consist of the following:

(IN MILLIONS)	2002		2001	
Cash paid for:				
Interest	\$	59.3	\$	62.0
Taxes	\$	8.4	\$	20.4
Non-cash items:				
Common stock issued under incentive plans	\$	2.0	\$	6.6

NOTE 18 - COMPREHENSIVE INCOME (Loss)

Comprehensive income (loss) represents net income (loss) and other gains and losses affecting shareholders' equity (deficit) that are not reflected in the consolidated statements of operations. The components of accumulated other comprehensive loss as of December 31, 2002 and 2001 were as follows:

(IN MILLIONS)	2002	2001
---------------	------	------

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Currency translation adjustments	\$	(7.5)	\$	(2)
Minimum pension obligations		(17.1)		(
Net unrealized gains (losses) on financial instruments		3.4		(
Accumulated other comprehensive loss	\$	(21.2)	\$	(3)

NOTE 19 - SEGMENT INFORMATION

The financial results for Hexcel's business segments have been prepared using a management approach, which is consistent with the basis and manner in which Hexcel management internally segregates financial information for the purposes of assisting in making internal operating decisions. Hexcel evaluates performance based on operating income and generally accounts for intersegment sales based on arm's-length prices. Corporate and other expenses are not allocated to the business segments, except to the extent that the expenses can be directly attributable to the business segments. Accounting principles used in the segment information are generally the same as those used for the consolidated financial statements.

As part of the Company's November 2001 restructuring program, effective January 1, 2002, management responsibility for the Company's carbon fiber product line was transferred to the Composites business segment. As a result of this change in management responsibilities, the Company changed its business segment reporting to reflect the reclassification of this product line from the Reinforcements segment to the Composites segment. The Company also changed the names of its business segments to Reinforcements, Composites and Structures. The Company's three business segments were previously known as Reinforcement Products, Composite Materials and Engineered Products. Results for the years ended December 31, 2001 and 2000 have been reclassified for comparative purposes. Hexcel's business segments and related products are as follows:

REINFORCEMENTS: This segment manufactures and sells carbon, glass and aramid fiber fabrics. These reinforcement products comprise the foundation of most composite materials, parts and structures. The segment weaves electronic fiberglass fabrics that are a substrate for printed circuit boards. All of the Company's electronics sales come from reinforcement fabric sales. This segment also sells products for industrial applications such as decorative blinds and soft body armor. In addition, this segment sells to the Company's Composites business segment, and to other third-party customers in the commercial aerospace and space and defense markets.

COMPOSITES: This segment manufactures and sells carbon fibers and composite materials, including prepregs, honeycomb, structural adhesives, sandwich panels and specially machined honeycomb parts, primarily to the commercial aerospace and space and defense markets, as well as to industrial markets. This segment also sells to the Company's Structures business segment.

STRUCTURES: This segment manufactures and sells a range of lightweight, high-strength composite structures primarily to the commercial aerospace and space and defense markets. As discussed in Note 22, the Structures business segment includes the results of the Bellingham aircraft interiors business, up to the date of its disposal on April 26, 2000. The Bellingham business manufactured and sold composite interiors to the aircraft refurbishment market.

The following table presents financial information on the Company's

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

business segments as of December 31, 2002, 2001 and 2000, and for the years then ended:

(IN MILLIONS)	REINFORCEMENTS	COMPOSITES	STRUCTURES	CORPORATE ELIMINATIONS
<hr/>				
Third-Party Sales				
2002	\$ 217.9	\$ 532.4	\$ 100.5	\$
2001	245.7	638.8	124.9	
2000	331.7	594.5	129.5	
<hr/>				
Intersegment sales				
2002	\$ 70.3	\$ 17.2	\$ -	\$ (8)
2001	90.2	22.7	-	(11)
2000	84.1	21.3	-	(10)
<hr/>				
Operating income (loss)				
2002	\$ 19.6	\$ 65.8	\$ 0.4	\$ (2)
2001	(304.6)	37.0	(4.5)	(4)
2000	42.7	62.2	4.1	(3)
<hr/>				
Depreciation and amortization				
2002	\$ 15.4	\$ 29.3	\$ 2.4	\$
2001	26.1	32.1	4.1	
2000	23.9	28.7	4.7	
<hr/>				
Equity in earnings (losses) of and write-down of an investment in affiliated companies				
2002	\$ (5.2)	\$ -	\$ (4.8)	\$
2001	(6.5)	-	(3.0)	
2000	5.9	-	(0.4)	
<hr/>				
Business consolidation and restructuring expenses (net credits)				
2002	\$ (0.5)	\$ 1.9	\$ 0.2	\$ (
2001	18.8	24.5	5.7	
2000	(1.4)	11.1	1.3	(
<hr/>				
Business consolidation and restructuring payments				
2002	\$ 7.9	\$ 11.2	\$ 1.6	\$
2001	2.7	7.6	0.1	
2000	2.2	7.1	1.9	
<hr/>				
Segment assets				
2002	\$ 245.4	\$ 435.5	\$ 80.8	\$ (5
2001	272.3	433.4	101.6	(1
2000	605.7	482.4	102.0	2
<hr/>				
Investments in affiliated companies				
2002	\$ 29.2	\$ -	\$ 4.8	\$
2001	47.3	-	9.6	
2000	59.6	-	12.5	
<hr/>				
Capital expenditures				
2002	\$ 4.0	\$ 10.4	\$ 0.4	\$
2001	18.0	19.3	0.6	

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

2000 13.5 23.3 1.1

99

GEOGRAPHIC DATA

Net sales and long-lived assets, by geographic area, consisted of the following for the three years ended December 31, 2002, 2001 and 2000:

(IN MILLIONS)	2002	2001	
NET SALES TO EXTERNAL CUSTOMERS:			
United States	\$ 479.5	\$ 595.1	\$
International			
France	160.6	166.8	
United Kingdom	60.5	71.5	
Other	150.2	176.0	
Total international	371.3	414.3	
Total consolidated net sales	\$ 850.8	\$ 1,009.4	\$ 1,
LONG-LIVED ASSETS:			
United States	\$ 225.3	\$ 254.2	\$
International			
France	34.3	30.4	
United Kingdom	35.3	30.7	
Other	31.7	29.2	
Total international	101.3	90.3	
Total consolidated long-lived assets	\$ 326.6	\$ 344.5	\$

Net sales are attributed to geographic areas based on the location in which the sale originated. U.S. net sales include U.S. exports to non-affiliates of \$54.2 million, \$72.6 million and \$47.7 million, for the years ended December 31, 2002, 2001 and 2000, respectively, of which, \$12.1 million for the year ended December 31, 2000 were sales attributable to the Bellingham aircraft interiors business. Long-lived assets primarily consist of property, plant and equipment and other tangible assets.

SIGNIFICANT CUSTOMERS

To the extent that the end application of net sales can be identified, The Boeing Company and its subcontractors accounted for approximately 22%, 23% and 20% of 2002, 2001 and 2000 net sales, respectively. Similarly, EADS, including Airbus and its subcontractors accounted for approximately 15%, 16% and 13% of 2002, 2001 and 2000 net sales, respectively.

NOTE 20 - LITIGATION GAIN

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

In 2002, the Company recognized a litigation gain of \$9.8 million (net of related fees and expenses) in connection with a contract dispute with Hercules, Inc. that arose out of the acquisition of Hercules' Composites Products Division in 1996. The net cash proceeds received from Hercules Inc. of \$11.1 million were in satisfaction of the judgment entered in favor of the Company after Hercules had exhausted all appeals from a lower court decision in the New York courts.

NOTE 21 - NON-RECURRING EXPENSES

In connection with the retirement of the former Chief Executive Officer, the Company recorded compensation expenses of \$4.7 million in 2001 as a result of the early vesting of certain deferred compensation and equity compensation awards together with a contractual termination payment. These expenses are included in "selling, general and administrative expenses" in the consolidated statement of operations.

NOTE 22 - GAIN ON SALE OF BELLINGHAM AIRCRAFT INTERIORS BUSINESS

On April 26, 2000, Hexcel sold its Bellingham aircraft interiors business to Britax Cabin Interiors, Inc., a wholly owned subsidiary of Britax International plc, for cash proceeds of \$113.3 million. The sale resulted in a pre-tax gain of \$68.3 million and an after-tax gain of approximately \$44.3 million (or \$0.97 per diluted share). Net proceeds from the sale were used to repay \$111.6 million of

100

outstanding term debt under the Company's Senior Credit Facility. The consolidated financial statements and accompanying notes reflect Bellingham's operating results as a continuing operation in the Structures business segment up to the date of disposal. Net sales and operating income for the Bellingham business were \$18.9 million and \$0.6 million, respectively, in 2000.

NOTE 23 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data for the years ended December 31, 2002 and 2001, were:

(IN MILLIONS)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER
<hr/>			
2002			
<hr/>			
Net sales	\$ 222.1	\$ 221.2	\$ 203.1
Gross margin	39.6	44.8	39.6
Business consolidation and restructuring expenses (net credits)	0.7	0.1	(0.1)
Operating income	13.3	19.5	13.3
Litigation gain	-	9.8	-
Loss (gain) on early retirement of debt	-	-	-
Net income (loss)	(9.2)	5.3	(9.2)
<hr/>			
Net income (loss) per share:			
Basic	\$ (0.24)	\$ 0.14	\$ (0.24)
Diluted	\$ (0.24)	\$ 0.14	\$ (0.24)

Market price:

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

High	\$	4.99	\$	5.40	\$	4
Low	\$	2.14	\$	3.50	\$	2

2001						

Net sales	\$	276.2	\$	253.5	\$	24
Gross margin		60.1		51.7		4
Business consolidation and restructuring expenses		1.1		1.8		
Impairment of goodwill and other purchased intangibles		-		-		
Operating income (loss) (a)		22.6		11.4		
Loss (gain) on early retirement of debt		-		3.1		
Net income (loss) (a)		5.5		(12.6)		(1

Net income (loss) per share:						
Basic	\$	0.15	\$	(0.34)	\$	(0
Diluted	\$	0.15	\$	(0.34)	\$	(0

Market price:						
High	\$	12.40	\$	12.99	\$	12
Low	\$	8.76	\$	8.90	\$	3
=====						

(a) Operating and net loss for the second quarter of 2001 include compensation expenses of \$4.7 million in connection with the retirement of the former Chief Executive Officer (see Note 21).

Hexcel has not declared or paid cash dividends per common stock during the periods presented.

NOTE 24 - SUBSEQUENT EVENT - PRO FORMA CONSOLIDATED BALANCE SHEET (UNAUDITED)

The unaudited pro forma consolidated balance sheet as of December 31, 2002 has been prepared to illustrate the effect of (i) the issuance of \$125.0 million mandatorily redeemable convertible preferred stock, (ii) the private placement under Rule 144A of \$125.0 million 9-7/8% senior secured notes, due 2008, and (iii) the establishment of a new \$115.0 million senior secured credit facility, as if the transactions had occurred as of December 31, 2002. The proceeds from the sale of mandatorily redeemable convertible preferred stock have been used to provide for the redemption of the Company's 7%

101

convertible subordinated notes, due 2003, and to repay outstanding borrowings under the existing senior credit facility. The remaining advances under the existing senior credit facility, after the application of a portion of the equity proceeds, have been repaid with the proceeds from the issuance of the Company's new 9-7/8% senior secured notes and a new senior credit facility. The transactions closed on March 19, 2003 (see Note 2).

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2002

(IN MILLIONS, EXCEPT PER SHARE DATA)

HISTORICAL ADJUSTMENTS

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

ASSETS

Current assets:

Cash and cash equivalents	\$ 8.2	\$ 4.4	(a)
Accounts receivable, net	117.3	-	
Inventories, net	113.6	-	
Prepaid expenses and other assets	9.2	-	

Total current assets	248.3	4.4	
----------------------	-------	-----	--

Net property, plant and equipment	309.4	-	
Goodwill, net	74.4	-	
Investments in affiliated companies	34.0	-	
Other assets	42.0	4.9	

Total assets	\$ 708.1	\$ 9.3	
--------------	----------	--------	--

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

Notes payable and current maturities of capital lease obligations	\$ 621.7	\$ (615.5)	(a)
Accounts payable	54.9	-	
Accrued compensation and benefits	37.6	-	
Accrued interest	19.1	(3.2)	(a)
Business consolidation and restructuring liabilities	10.5	-	
Other accrued liabilities	35.3	-	

Total current liabilities	779.1	(618.7)	
---------------------------	-------	---------	--

Long-term notes payable and capital lease obligations	-	512.4	(a)
Long-term retirement obligations	48.1	-	
Other non-current liabilities	8.3	-	

Total liabilities	835.5	(106.3)	
-------------------	-------	---------	--

Mandatorily redeemable convertible preferred stock, 125,000 series A shares and 125,000 series B shares authorized, issued and outstanding	-	96.4	(b)
--	---	------	-----

Stockholders' equity (deficit):

Preferred stock, no par value, 20.0 shares of stock authorized, no shares issued or outstanding	-	-	
Common stock, \$0.01 par value, 100.0 shares of stock authorized, shares issued of 39.8 at December 31, 2002	0.4	-	
Additional paid-in capital	288.2	23.4	(b)
Accumulated deficit	(381.5)	(4.2)	(c)
Accumulated other comprehensive loss	(21.2)	-	

Less- Treasury stock, at cost, 1.3 shares at December 31, 2002	(114.1)	19.2	
	(13.3)	-	

Total stockholders' equity (deficit)	(127.4)	19.2	
--------------------------------------	---------	------	--

Total liabilities and stockholders' equity (deficit)	\$ 708.1	\$ 9.3	
--	----------	--------	--

(a) The Company received gross proceeds of \$123.7 million from the issuance of 9-7/8% senior secured notes, due 2008, after discount of \$1.3 million,

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

along with \$125.0 million of gross proceeds from the issuance of mandatorily redeemable convertible preferred stock. The proceeds from the issuance of the senior secured notes, together with a portion of the proceeds from the issuance of mandatorily redeemable convertible preferred stock, were used to repay

102

\$179.9 million of the Company's existing Senior Credit Facility, accrued interest of \$1.8 million on the existing Senior Credit Facility as of December 31, 2002 and a portion of total estimated transaction fees and expenses of \$14.3 million (which includes the preferred stock issuance expenses of \$5.2 million). The remaining portion of the proceeds from the issuance of the mandatorily redeemable convertible preferred stock was remitted to US Bank Trust, trustee for the Company's 7% Convertible Subordinated Notes due August 1, 2003, for the express purpose of retiring the remaining \$46.9 million of such notes and paying the accrued interest thereon of \$1.4 million as of December 31, 2002. Estimated excess cash proceeds of approximately \$4.4 million will be used for general corporate purposes. A substantial portion of the Company's indebtedness has been reclassified as long-term to reflect scheduled debt payments after the refinancing transactions.

- (b) The Company received net proceeds of \$119.8 million, after issuance expenses of \$5.2 million, from the issuance of 125,000 shares of series A preferred stock and 125,000 shares of series B preferred stock. In addition, a beneficial conversion feature of \$23.4 million was recognized. The beneficial conversion feature is the implicit discount on the preferred stock computed based upon the conversion to the underlying common stock at the conversion price of \$3.00 per share and the average market price of Hexcel common stock on March 19, 2003 of \$2.93 per share.
- (c) As the result of the repayment of the existing Senior Credit Facility and the 7% convertible subordinated notes, due 2003, the Company wrote-off \$4.2 million unamortized discount and capitalized debt issuance costs.

103

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF BHA AERO COMPOSITE PARTS CO., LTD.
(A Sino-foreign equity joint venture established in the People's Republic of China)

We have audited the accompanying balance sheets of BHA Aero Composite Parts Co., Ltd. (the "Company") as of December 31, 2002 and 2001, and the related statements of operations, owners' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

In our opinion, such financial statements present fairly, in all material respects, the financial position of the BHA Aero Composite Parts Co., Ltd. at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company's recurring losses from operations and accumulated deficit raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The accompanying statements of operations, owners' equity and cash flows for the year ended 2000 have been compiled by us in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting information that is the representation of management in the form of financial statements. We have not audited or reviewed such financial statements and, accordingly do not express an opinion or any other form of assurance on them.

/s/ Deloitte Touche Tomatsu

Deloitte Touche Tohmatsu
Certified Public Accountants Ltd.
Beijing, China
March 2, 2003

104

BHA AERO COMPOSITE PARTS CO., LTD.
BALANCE SHEETS

	December 31, 2001	December 31, 2002
	----- RMB	----- RMB
ASSETS		
Current assets:		
Cash	104,374,290	3,516,469
Account receivable - related party	-	5,423,054
Other receivables - others	3,150,437	1,154,352
- related party	-	364,013
Value-added tax receivable	696,125	3,512,760
Prepaid expenses	59,087	139,595
Advance to suppliers	34,196	2,271,093
Inventories	12,291,162	18,354,749
	-----	-----
Total current assets	120,605,297	34,736,085
	-----	-----
Property, plant and equipment, net	260,526,689	250,780,914
	-----	-----

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

TOTAL ASSETS	381,131,986	285,516,999	3
	=====	=====	==
LIABILITIES AND OWNERS' EQUITY			
Current Liabilities:			
Accounts payable - trade	625,138	4,002,034	
- related party	-	41,221	
Other payables - others	32,071,673	5,233,684	
- related parties	1,494,514	9,646,676	
Accrued expenses	16,745,053	11,105,218	
	-----	-----	---
Total current liabilities	50,936,378	30,028,833	
Long-term Liabilities:			
Deferred tax liability	406,000	406,000	
Long-term bank loans	216,022,240	233,416,680	2
	-----	-----	---
Total long-term liabilities	216,428,240	233,822,680	2
	-----	-----	---
Total liabilities	267,364,618	263,851,513	3
	-----	-----	---
Commitments (Note 12)			
Owners' Equity:			
Paid in capital	165,562,762	165,562,762	2
Accumulated losses	(51,795,394)	(143,897,276)	(1)
	-----	-----	---
	113,767,368	21,665,486	
	-----	-----	---
TOTAL LIABILITIES AND OWNERS' EQUITY	381,131,986	285,516,999	3
	=====	=====	==

See accompanying notes to financial statements.

105

BHA AERO COMPOSITE PARTS CO., LTD.
STATEMENTS OF OPERATIONS

	Year ended December 31, 2000	Year ended December 31, 2001	Year ended Decem 2002
	----- RMB (unaudited)	----- RMB	----- RMB
Sales	-	-	14,878,101
Cost of sales	-	-	(52,441,976)
	-----	-----	-----
Gross loss	-	-	(37,563,875)
Operating expenses:			
Selling, general and administrative	(3,288,193)	(49,399,753)	(46,880,099)

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Loss from operations	(3,288,193)	(49,399,753)	(84,443,974)	(1,288,193)
Other income (expense):				
Interest income	-	2,405,474	669,453	
Interest expense	-	(541,730)	(7,640,625)	
Foreign exchange loss	-	(79,896)	(197,930)	
Other	-	(485,296)	(488,806)	
	-	1,298,552	(7,657,908)	
Net loss before income tax provision	3,288,193	48,101,201	92,101,882	1,288,193
Income tax provision - deferred	-	406,000	-	
Net loss	3,288,193	48,507,201	92,101,882	1,288,193

See accompanying notes to financial statements.

106

BHA AERO COMPOSITE PARTS CO., LTD.
STATEMENTS OF OWNERS' EQUITY

	Paid-in capital	Accumulated losses	Total
	RMB	RMB	
Balance, January 1, 2000 (unaudited)	66,516,090	-	66,516,090
Capital contribution (unaudited)	99,046,672	-	99,046,672
Net loss (unaudited)	-	(3,288,193)	(3,288,193)
Balance, January 1, 2001	165,562,762	(3,288,193)	162,274,569
Net loss	-	(48,507,201)	(48,507,201)
Balance, December 31, 2001	165,562,762	(51,795,394)	113,767,368
Net loss	-	(92,101,882)	(92,101,882)
Balance, December 31, 2002	165,562,762	(143,897,276)	21,665,486
In US\$	20,002,025	(17,384,567)	2,617,458

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

See accompanying notes to financial statements.

107

BHA AERO COMPOSITE PARTS CO., LTD.
STATEMENTS OF CASH FLOWS

	December 31, 2000	December 31, 2001	2002
	RMB (unaudited)	RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(3,288,193)	(48,507,201)	(92,101,
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	265,193	2,416,887	18,641,
Gain on disposal of fixed assets	-	-	101,
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Account receivable - related party	-	-	(5,423,
Other receivables - others	(632,997)	(2,517,440)	1,996,
- related parties	-	-	(364,
Value-added tax receivable	-	(696,125)	(2,816,
Prepaid expenses	(59,523)	436	(80,
Advance to suppliers	-	(34,196)	(2,236,
Inventories	-	(12,291,162)	(6,063,
Accounts payable - trade	-	625,138	3,376,
- related party	-	-	41,
Other payables - others	7,078,763	906,489	(1,257,
- related parties	-	-	8,152,
Accrued expenses	1,290,756	15,454,297	(5,639,
Deferred tax liability	-	406,000	
Net cash used in operating activities	4,653,999	(44,236,877)	(83,673,
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contribution	99,046,672	-	
Purchase of property, plant and equipment	(27,643,083)	(209,984,751)	(34,697,
Proceeds received from disposal of fixed assets	-	-	118,
Net cash used in investing activities	71,403,589	(209,984,751)	(34,578,
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings	-	216,022,240	17,394,
Net cash provided by financing activities	-	216,022,240	17,394,
Net increase (decrease) in cash	76,057,588	(38,199,388)	(100,857,
Cash at beginning of year	66,516,090	142,573,678	104,374,
Cash at end of year	142,573,678	104,374,290	3,516,

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Supplemental Cash Flow Information

Cash paid during the year:

Interest	-	1,922,079	7,250,
	=====	=====	=====

See accompanying notes to financial statements.

108

BHA AERO COMPOSITE PARTS CO., LTD. NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

BHA Aero Composite Parts Co., Ltd. (the "Company") was incorporated in Tianjin, the People's Republic of China ("PRC") as a Sino-foreign equity joint venture with an operation period of 22 years commencing July 8, 1999. The Company is invested by Hexcel China Holdings Corporation ("Hexcel China"), Boeing International Holdings, Ltd. ("Boeing") and China Aviation Industry Corporation ("China Aviation"). Total registered capital of the Company is US\$20,000,001, which is equivalent to RMB165,562,762, and each investor has equal share in the Company.

The Company is primarily engaged in the manufacturing of aero composite parts. Major raw materials were purchased from Hexcel Corporation and all sales have been made to Hexcel Corporation, in year 2002 and 2001. Hexcel Corporation is the holding company of Hexcel China.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). This basis of accounting differs from that used in the statutory financial statements of the Company, which are required to be prepared in accordance with the accounting principles and the relevant financial regulations as established by the Ministry of Finance of the PRC ("PRC GAAP"). There was no material difference except for capitalization of borrowing cost and recognition of deferred tax.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOING CONCERN - The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements for the year ended December 31, 2002, the Company incurred a net loss of RMB92,101,882 (US\$11,127,044) and cash flows used in operating activities totaled RMB83,673,557 (US\$10,108,798). These factors indicate that the Company may potentially be unable to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing and ultimately to attain successful operations. Management believes the Company can meet its obligations and sustain operations from a combination of additional equity and/or debt financing,

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

which it is currently seeking, and the release of new products.

109

BHA AERO COMPOSITE PARTS CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES - Inventories are stated at the lower of cost (weighted average) or market.

PROPERTY, PLANT AND EQUIPMENT, NET - Property, plant and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed over its estimate useful life using the straight-line method as follows:

Land use rights	Over the shorter of lease term or operation period
Buildings	20 years
Machinery and production equipment	10 years
System software and related electronic equipment	5 years
Motor vehicles	5 years

The Company constructs certain of its production equipment. In addition to costs under the construction contracts, internal costs directly related to the construction of such equipment including interest and salaries of certain employees, are capitalized. No depreciation is charged on construction in progress until the assets are operational.

IMPAIRMENT OF LONG-LIVED ASSETS - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets the Company would recognize an impairment loss. There was no impairment in the carrying value of long-lived assets at December 31, 2002 and 2001.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The Company's financial instruments consist of cash, accounts receivable, accounts payable and bank borrowings. At December 31, 2002 and 2001, the fair value of such instruments approximated their financial statements carrying amounts.

REVENUE RECOGNITION - Revenue from products sold directly to the customer is recognized upon delivery. The Company does not record a provision for estimated returns and warranty costs at the time revenue is recognized. Estimated returns and warranty costs have not been material in any period presented.

FOREIGN CURRENCIES - Transactions in currencies other than RMB are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are translated at the rates ruling on the balance sheet date. Exchange gains and losses are taken to the statement of operations.

BHA AERO COMPOSITE PARTS CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONVENIENCE TRANSLATION INTO UNITED STATES DOLLARS - The financial statements are presented in Renminbi. The translation of Renminbi amounts into United States dollars has been made for the convenience of the reader and has been made at the rate of exchange quoted by the People's Bank of China on December 31, 2002 of RMB8.2773 to US\$1.00. Such translation amounts should not be construed as representations that the Renminbi amounts could be readily converted into United States dollars at that rate or any other rate.

COMPREHENSIVE LOSS - SFAS No. 130, "Reporting Comprehensive Income" requires that an enterprise report by major components and as a single total, the change in its net assets from non-owner sources. Comprehensive loss equals net loss for both years ended December 31, 2002 and 2001.

CAPITALIZATION OF INTEREST - The Company capitalized interest costs based upon the cost of capital projects in progress during 2001. Capitalized interest of RMB2,708,650 (US\$327,238) in 2001, has been added to the cost of the underlying assets during the period and is amortized over the respective useful lives of the assets. Amortization expenses relating to capitalized interest for the year was RMB135,432 (US\$16,362), RMB11,286 and nil (unaudited) for 2002, 2001 and 2000, respectively.

INCOME TAXES - Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for net operating loss and tax credit carry forwards. The tax consequences of those differences are classified as current or non-current based upon the classification of the related asset or liability in the financial statements. A valuation allowance is provided to reduce the amount of deferred tax asset if it is considered more likely than not that some portion of, or all of, the deferred tax asset will not be realized.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SEGMENT INFORMATION - The company reports segment data pursuant to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. The Company operates in one reportable segments (Note 13).

BHA AERO COMPOSITE PARTS CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ISSUED ACCOUNTING STANDARDS - In June 2001, the Financial Accounting Standards Board issued ("FASB") issued SFAS No.141, "Business Combinations," and SFAS No.142, "Goodwill and Other Intangible Assets." SFAS No.141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No.142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No.142 provides that intangible assets with indefinite useful lives will not be amortized, but will be tested at least annually for impairment. The Company did not have goodwill or other intangible assets at December 31, 2002. Consequently, the adoption of SFAS No.142, effective January 1, 2002, did not have an impact on its financial statements.

In August 2001, FASB issued SFAS No.144, "Accounting for Impairment of Disposal of Long-Lived Assets". SFAS No.144 supersedes SFAS No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The adoption of SFAS No.144, effective January 1, 2002, did not have an impact on its financial statements.

In June 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS No.146 supersedes previous accounting guidance, principally Emerging Issue Task Force Issue ("EITF") No.94-3. The Company will adopt the provisions of SFAS No.146 for restructuring activities initiated after December 31, 2002. SFAS No.146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No.94-3, a liability for an exit cost was recognized at the date of commitment to an exit plan. SFAS No.146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No.146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized. The Company does not believe the adoption of such interpretation will have a material impact on its results of operations or financial position.

In November 2002, the FASB issued Interpretation Number 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for interim and annual periods after December 15, 2002 and the Company has adopted those requirements for these financial statements. The initial recognition and initial measurement requirements of FIN 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The Company does not believe the adoption of such interpretation will have a material impact on its results of operations or financial position.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. It explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not believe the adoption of such interpretation will have a material impact on its results of operations or financial position.

4. INVENTORIES

	December 31, 2001	December 31, 2002	
	----- RMB	----- RMB	
Raw materials	12,291,162	13,201,120	1,
Work in progress	-	3,963,747	
Finished goods	-	1,189,882	
	-----	-----	-----
Inventories	12,291,162	18,354,749	2,
	=====	=====	=====

5. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 2001	December 31, 2002	
	----- RMB	----- RMB	
Land use rights	5,092,160	5,092,237	
Buildings	156,098,987	161,513,897	
Machinery and production equipment	88,363,675	84,550,008	
System software and related electronic equipment	7,897,039	19,515,807	
Motor vehicles	2,025,789	1,534,589	
	-----	-----	
	259,459,650	272,206,538	
Less: Accumulated depreciation and amortization	(2,682,079)	(21,425,624)	
	-----	-----	
Projects under construction	256,777,571	250,780,914	
	3,749,118	-	
	-----	-----	
Property, plant and equipment, net	260,526,689	250,780,914	
	=====	=====	

The depreciation and amortization expense for 2002, 2001 and 2000 was RMB18,641,555 (US\$2,252,130), RMB2,416,887 and RMB265,193 (unaudited), respectively.

BHA AERO COMPOSITE PARTS CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

6. ACCRUED EXPENSES

	December 31, 2001	December 31, 2002	
	----- RMB	----- RMB	----- US\$
Interest accrual	1,328,300	1,718,015	207,557
Payroll accrual	12,842,780	3,661,610	442,368
Other accruals	2,573,973	5,725,593	691,722
	-----	-----	-----
Accrued expenses	16,745,053	11,105,218	1,341,647
	=====	=====	=====

7. LONG TERM BANK LOANS

As of December 31, 2002, the Company had total long term credit facilities, composed of US dollar loan and RMB loan facilities, for working capital purposes totaling US\$21,333,334 and RMB88,320,000 (equivalent to US\$10,670,146) expiring in May 2004 and July 2004 respectively. The US dollar loan facilities are guaranteed by Hexcel China and Boeing and the RMB loan facilities are guaranteed by China Aviation. Unused facilities was US\$2,533,334 and RMB10,516,560 (equivalent to US\$1,270,530) as of December 31, 2002.

	December 31, 2001	December 31, 2002	
	----- RMB	----- RMB	----- US\$
Loans drawn down from US dollar facilities bear interest at rate of LIBOR plus 0.5% per annum (2.417% weighted average in 2002) and due in May 2004	144,012,840	155,613,240	18,341,647
Loans drawn down from RMB facilities bear interest at a rate of 4.437% per annum and due in July 2004.	72,009,400	77,803,440	9,442,368
	-----	-----	-----
	216,022,240	233,416,680	28,784,015
	=====	=====	=====

8. TAXATION

INCOME TAX

The Company is governed by the Income Tax Law of the PRC (the "Income Tax Laws"). Under the Income Tax Laws, companies generally are subject to income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise is

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

located in specially designated regions or cities for which more favorable effective rates apply.

114

BHA AERO COMPOSITE PARTS CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

8. TAXATION - Continued

Pursuant to the Income Tax Laws, companies approved as manufacturing enterprises with operation period more than 10 years are eligible for a two-year exemption from income tax followed by a 50% reduction of income tax for the next three years. Since the Company is located in Tianjin new technology development zone, it also enjoys a reduced income tax rate at 15% with approval.

No current year tax provision has been made as the Company does not has any taxable income in 2002 and 2001.

DEFERRED TAX

Significant components of the Company's deferred income tax liabilities are as follows:

	December 31, 2001	December 31, 2002	December 31, 2002
	----- RMB	----- RMB	----- US\$
Deferred tax liabilities:			
Interest capitalization	(406,000)	(406,000)	(49,050)
	-----	-----	-----
Total deferred tax liabilities	(406,000)	(406,000)	(49,050)
	=====	=====	=====

Significant components of deferred income tax assets are as follows:

	December 31, 2001	December 31, 2002	December 31, 2002
	----- RMB	----- RMB	----- US\$
Deferred tax assets:			
Net operating loss carry forwards	-	12,556,000	
Inventory valuation	-	1,395,000	
Depreciation and amortization	8,114,000	8,968,000	
	-----	-----	-----
Total deferred tax assets	8,114,000	22,919,000	
Valuation allowance	(8,114,000)	(22,919,000)	
	-----	-----	-----
Total net deferred tax assets	-	-	
	=====	=====	=====

At December 31, 2002, the Company had tax loss carry-forwards of

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

approximately RMB83.71 million (US\$10.11 million), which expire in 2007. The utilization of the carry forwards is dependant upon the future profitability of the Company. A full valuation allowance was taken by the Company due to the uncertainties of their eventual realization.

115

BHA AERO COMPOSITE PARTS CO., LTD. NOTES TO THE FINANCIAL STATEMENTS

9. VALUE ADDED TAX

The Company is subject to value added tax at a rate of 17% on product sales. Value added tax payable on sales is computed net of value added tax paid on purchases for all domestic sales. For all good produced for overseas sales purpose, the Company is entitled to an exemption on value added taxes on the sales amount and conversely the input value added tax levied on the raw materials purchased is allowed to be settled with any domestic sales incurred in the future. The Company did not generate any domestic sales in 2002, 2001 and 2000 therefore the Company has not recorded any value added tax payable.

10. DISTRIBUTION OF PROFITS

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprises, the Company is required to make appropriations from net income as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to non-distributable reserves which include a general reserve, an enterprise expansion reserve and a employee welfare and bonus reserve.

The general reserve is used to offset future extraordinary losses as defined under PRC GAAP. The Company may, upon a resolution passed by the owners, convert the general reserve into capital. The employee welfare and bonus reserve is used for the collective welfare of the employees of the Company. The enterprise expansion reserve is used for the expansion of the Company and can be converted to capital subject to approval by the relevant authorities. The Company did not record any reserves in 2002, 2001 and 2000 as the Company incurred loss under PRC GAAP. Therefore was not required to record such reserves.

11. RELATED PARTY TRANSACTIONS

All sales generated in 2002 were made to Hexcel Corporation. The balance related to such sales is included in account receivable - related party balance.

The Company purchases raw materials from Hexcel Corporation. Total raw materials purchased from Hexcel Corporation in 2002, 2001 and 2000 was RMB1.68 million (US\$0.20 million), Nil and Nil (unaudited), respectively. The balance related to such purchases are included in accounts payable - related party balance.

Other receivables from related party represented reimbursements paid on behalf of Hexcel Corporation, which are non-interest bearing, unsecured and repayable on demand.

116

BHA AERO COMPOSITE PARTS CO., LTD.

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

NOTES TO THE FINANCIAL STATEMENTS

11. RELATED PARTY TRANSACTIONS - Continued

Other payables to investors are as follows:

	December 31, 2001	December 31, 2002	December 31, 2002
	RMB	RMB	US\$
Royalty fee payables:			
Hexcel Corporation	-	80,559	9,733
Boeing	-	40,279	4,866
China Aviation	-	60,419	7,299
	-----	-----	-----
	-	181,257	21,898
	-----	-----	-----
Temporary advance:			
Hexcel Corporation	275,991	275,991	33,344
	-----	-----	-----
Reimbursements:			
Hexcel Corporation	1,218,523	7,139,157	862,498
Boeing	-	2,050,271	247,698
	-----	-----	-----
	1,218,523	9,189,428	1,110,196
	-----	-----	-----
	1,494,514	9,646,676	1,165,438
	=====	=====	=====

The reimbursements represents salaries and related benefits paid by the investors on behalf of the Company.

Pursuant to the royalty agreements signed between the Company and the investors. Royalty fee is calculated based on a fixed percentage of the cash collection of the Company's annual sales and is payable on a semi-annual basis. Accordingly, the Company has recorded RMB181,257 (US\$21,898) in 2002 and Nil in 2001, and 2000 in royalty expenses.

At December 31, 2002 and 2001, the investors have guaranteed the Company's bank credit facilities and bank borrowings.

12. COMMITMENTS

Operating lease - As of December 31, 2002, the Company was committed under certain operating leases, requiring annual rental expense as follows:

	RMB	US\$
2003	2,727,000	329,455
2004	365,000	44,097
	-----	-----
	3,092,000	373,552
	=====	=====

BHA AERO COMPOSITE PARTS CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS

12. COMMITMENTS - Continued

The rent expense in 2002, 2001 and 2000 was RMB3,889,533 (US\$469,904), RMB3,250,379 and RMB274,443 (unaudited), respectively.

Commitments - at December 31, 2002, the Company had purchase commitments to purchase machinery and equipment for approximately RMB200,000 (US\$24,000) from a third party by April 30, 2003.

13. SEGMENT REPORTING

SFAS No. 131 requires disclosures regarding products and services, geographic areas, and major customers. The Company operates in one reportable segment. For the year ended December 31, 2002, the Company recorded revenue from a customer from the United States.

The Company generates revenue from one segment, products for aero composite parts. The Company's business activities and accounts receivable are with a sole customer, Hexcel Corporation. The Company will maintain allowances for estimated potential bad debt losses and will revise its estimates of collectibility on a periodic basis. There is no history of bad debt experience with Hexcel Corporation and collection of receivable is reasonably assured.

The Company's business growth is dependent on demand from Hexcel corporation. The slow down of airline industry globally will have a material adverse effect on the Company's business. The Company's customer base is concentrated and the loss of Hexcel Corporation could cause the Company's business to suffer.

14. EMPLOYEE RETIREMENT BENEFITS AND POST- RETIREMENT BENEFITS

The Company's employees in the PRC are entitled to retirement benefits calculated with reference to their basic salaries on retirement and their length of service in accordance with a government managed benefit plan. The government is responsible for the benefit liability to these retired employees. The Company has to contribute to the fund based on 25.7% of the employees' basic monthly salaries. The expense of such arrangements to the Company was approximately RMB1,187,111 (US\$143,418), RMB764,406 and RMB50,158 (unaudited) for the years ended December 31, 2002, 2001 and 2000, respectively. The Company is not obligated under any other post-retirement plans and does not provide any post-employment benefits.

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Hexcel Corporation:

Our audits of the consolidated financial statements referred to in our report dated February 28, 2003, except for Notes 2 and 8 which are as of March 19, 2003, appearing in this Annual Report on Form 10-K/A to Stockholders of Hexcel Corporation also included an audit of the financial statement schedule listed in

Edgar Filing: HEXCEL CORP /DE/ - Form 10-K/A

Item 15(a)(2) of this Form 10-K/A. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Stamford, Connecticut

February 28, 2003, except for Notes 2 and 8 which are as of March 19, 2003

119

SCHEDULE II

HEXCEL CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

(IN MILLIONS)	BALANCE AT BEGINNING OF YEAR	CHARGED (CREDITED) TO EXPENSE	DEDUCTIONS AND OTHER	BA AT Y

YEAR ENDED DECEMBER 31, 2002				
Allowance for doubtful accounts	\$ 8.5	\$ (0.9)	\$ (2.5)	\$
Allowance for obsolete and unmarketable inventory	25.1	7.6	(11.4)	
Valuation allowance for deferred tax asset	185.0	8.5	(26.1)	
YEAR ENDED DECEMBER 31, 2001				
Allowance for doubtful accounts	\$ 7.0	\$ 3.4	\$ (1.9)	\$
Allowance for obsolete and unmarketable inventory	30.7	6.3	(11.9)	
Valuation allowance for deferred tax asset	6.2	180.3	(1.5)	
YEAR ENDED DECEMBER 31, 2000				
Allowance for doubtful accounts	\$ 5.7	\$ 0.7	\$ 0.6	\$
Allowance for obsolete and unmarketable inventory	28.7	17.7	(15.7)	
Valuation allowance for deferred tax asset	6.4	(0.1)	(0.1)	

120