HEXCEL CORP /DE/
Form S-3
November 24, 2004

QuickLinks -- Click here to rapidly navigate through this document

**AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 24, 2004**

**Registration No. 333-**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM S-3

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

# HEXCEL CORPORATION

**(Exact name of Registrant as specified in its charter)**

| **Delaware** | **3089** | **94-1109521** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

**Two Stamford Plaza
281 Tresser Boulevard
Stamford, Connecticut 06901-3238**
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

**Ira J. Krakower, Esq.
Senior Vice President and General Counsel
Hexcel Corporation
Two Stamford Plaza
281 Tresser Boulevard
Stamford, Connecticut 06901-3238
(203) 969-0666**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

| **Joseph A. Coco, Esq.**<br>**Thomas W. Greenberg, Esq.**<br>**Skadden, Arps, Slate, Meagher & Flom LLP**<br>**Four Times Square**<br>**New York, New York 10036** | **Kris F. Heinzelman, Esq.**<br>**Cravath, Swaine & Moore LLP**<br>**Worldwide Plaza**<br>**825 Eighth Avenue**<br>**New York, New York 10019** |
|---|---|

**Approximate date of commencement of proposed sale to the public:** As soon as possible after the effective date of this Registration Statement as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box: o

If this Form is filed to register additional securities or an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price Per Unit(2) | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee |
|---|---|---|---|---|
| Common Stock, par value $0.01 per share, of Hexcel Corporation | 24,149,998 | $16.37 | $395,335,467 | $50,089 |

(1) Includes an aggregate of 3,149,998 shares of common stock that may be purchased by the underwriters to cover over-allotments, if any.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low prices of the common stock on the New York Stock Exchange on November 22, 2004.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

Subject to Completion. Dated November 24, 2004.

21,000,000 Shares

# Hexcel Corporation

## Common Stock

All of the shares of common stock in this offering are being sold by the selling stockholders identified in this prospectus. Hexcel will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

The common stock is listed on the New York Stock Exchange and the Pacific Exchange under the symbol "HXL". The last reported sale price of the common stock on November 23, 2004 was $16.61 per share.

*See "Risk Factors" on page 14 to read about factors you should consider before buying shares of the common stock.*

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

| | Per Share | Total |
|---|---|---|
| Initial price to public | $ | $ |
| Underwriting discount | $ | $ |
| Proceeds, before expenses, to the selling stockholders | $ | $ |

To the extent that the underwriters sell more than 21,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 3,149,998 shares from the selling stockholders at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2004.

**Goldman, Sachs & Co.** **Credit Suisse First Boston**

**Deutsche Bank Securities**

**Bear, Stearns & Co. Inc.**

**Jefferies Quarterdeck**

Prospectus dated , 2004.

## AVAILABLE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. You may read and copy any document Hexcel files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-888-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's website at www.sec.gov or from our website at www.hexcel.com. However, the information on our website does not constitute a part of this prospectus.

In this document, we "incorporate by reference" the information we file with the SEC, which means that we can disclose important information to you by referring to that information. The information incorporated by reference is considered to be a part of this prospectus. Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for all purposes to the extent that a statement contained in this prospectus or in any other subsequently filed document that is also incorporated or deemed to be incorporated by reference, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus until the offering is completed.

Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004; June 30, 2004 and September 30, 2004;

Proxy Statement for the 2004 Annual Meeting of Stockholders of Hexcel Corporation filed on April 23, 2004; and

Current Reports on Form 8-K dated April 22, 2004; July 23, 2004; September 29, 2004; October 1, 2004; October 22, 2004; and November 22, 2004 (except any materials only "furnished" to the SEC).

You may request a copy of these filings at no cost by writing or telephoning Hexcel at: Two Stamford Plaza, 281 Tresser Boulevard, Stamford, Connecticut 06901, (203) 969-0666, Attention: Investor Relations.

You should rely only upon the information provided in this prospectus or incorporated by reference into this prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus, including any information incorporated by reference, is accurate as of any date other than the date of this prospectus.

## MARKET AND INDUSTRY DATA

Industry and market data used throughout this prospectus was obtained through company research, surveys and studies conducted by third parties and industry and general publications. We have not independently verified market and industry data from third-party sources. While we believe that our internal surveys are reliable and that industry descriptions are appropriate, neither these surveys nor these descriptions have been verified by any independent sources.

## FORWARD-LOOKING STATEMENTS

This prospectus includes and incorporates by reference 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 the use of terms and phrases such as "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. These statements are contained in sections entitled "Risk Factors," "Business" and other sections of this prospectus and in the documents incorporated by reference in this prospectus.

Such forward-looking statements include, but are not limited to:

- estimates of the trend in commercial aerospace production and delivery rates, including those of Airbus and Boeing;
- expectations regarding the growth in the production of military aircraft, helicopters and launch vehicle programs in 2004 and beyond;
- expectations regarding future business trends in the electronics fabrics industry;
- expectations regarding the demand for body armor made of aramid and specialty fabrics;
- expectations regarding growth in sales of composite materials for wind energy, recreation and other industrial applications;
- estimates of changes in net sales by market compared to 2003;
- expectations regarding our equity in the earnings (losses) of joint ventures, as well as joint venture investments and loan guarantees;
- expectations regarding working capital trends and capital expenditures;
- the availability and sufficiency of our senior credit facility and other financial resources to fund our worldwide operations in 2004 and beyond;
- expectations about refinancing BHA Aero Composite Parts Co., Ltd.; and
- the impact of various market risks, including fluctuations in the interest rates underlying our variable-rate debt, fluctuations in currency exchange rates, fluctuations in commodity prices and fluctuations in the market price of our 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 or technology; industry capacity; competition; disruptions of established supply channels; manufacturing capacity constraints; the availability, terms and deployment of capital; and the other factors described under "Risk Factors." Additional information regarding these factors is contained in our Annual Report on Form 10-K for the year ended December 31, 2003.

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

## SUMMARY

*This summary may not contain all of the information that may be important to you. You should read the entire prospectus, including the financial data and related notes, before making an investment decision. The terms "Hexcel," the "Company," "we" and "us" in this prospectus refer to Hexcel Corporation and its subsidiaries, unless the context otherwise requires. You should pay special attention to the "Risk Factors" section beginning on page 14 of this prospectus to determine whether an investment in our common stock is appropriate for you. Unless otherwise noted, all references in this prospectus to a number or percentage of shares outstanding are based on 40,381,080 shares of our common stock outstanding as of November 22, 2004. Unless otherwise noted, the information in this prospectus assumes that the underwriters' over-allotment option to purchase a maximum of 3,149,998 additional shares is not exercised.*

### Overview

We are a leading producer of advanced structural materials. We develop, manufacture and market lightweight composite materials, high-performance reinforcement products, and composite structures for use in the commercial aerospace, industrial, space and defense and electronics markets. Our products are used in a wide variety of end products, such as commercial and military aircraft, space launch vehicles and satellites, wind turbine blades, printed wiring boards for computers and telecommunications, body armor, high-speed trains and ferries, cars and trucks, window blinds, bikes, skis and a wide variety of recreational equipment. Our advanced structural materials enable our customers to build structures that are lighter, stiffer and/or stronger than structures built with traditional materials without the problems of fatigue or corrosion associated with metals. The following charts summarize our fiscal 2003 net sales by manufactured location, business segment and end market:

For the fiscal year ended December 31, 2003, we generated net sales of $896.9 million. For the nine months ended September 30, 2004, we generated net sales of $798.1 million.

Our business is organized around three strategic business segments:

- *Composites:* This segment manufactures and produces carbon fibers, honeycomb and fiber reinforced matrix materials, structural adhesives and specially machined honeycomb details and composite panels that are incorporated into many applications including military and commercial aircraft, wind turbine blades and recreation products;

- *Reinforcements:* This segment manufactures carbon fiber reinforcement fabrics for composites, fiberglass fabrics for printed wiring board substrates, woven fabrics for ballistics protection and other carbon, aramid and glass reinforcement materials that are the foundation of composite materials, parts and structures or are used in other industrial applications; and

- *Structures:* This segment engineers and produces composite parts for structures and interiors of commercial and military aircraft.

With 18 manufacturing facilities located in six countries around the world and joint ventures in the United States and Asia, we are well positioned to take advantage of opportunities for growth worldwide. For the fiscal year ended December 31, 2003, 45% of our products were manufactured outside the United States. We serve our international markets through manufacturing facilities and sales offices located in the United States and Europe and through sales offices located in Asia and Australia.

We believe that we have achieved a degree of vertical integration unmatched by any competitor. This vertical integration enhances our control over the cost, quality and delivery of our products and enables us to offer a variety of solutions to our customers' mission critical, structural materials needs. We have maintained longstanding relationships with our key customers, including Boeing and the European Aeronautic Defence and Space Company ("EADS"), the parent company of Airbus, DHB Industries, Vestas Wind Systems, Isola Laminate Systems, Park Electrochemical, Lockheed Martin, BAE Systems and GKN.

**Competitive Strengths**

We believe that our competitive position is attributable to a number of key strengths, including the following:

*Industry Leader with Comprehensive Product Capabilities*

We believe that we are:

- the world's largest integrated producer of advanced structural materials for both the commercial and military aerospace industries;

- a global leader in the manufacture of carbon fibers for military aircraft applications, as well as a global leader in the manufacture of fiber reinforced matrix materials, reinforcement fabrics and honeycomb products for commercial and military aircraft applications; and

- the world's leading producer of reinforcement fabrics for body armor.

We have been an industry leader for more than 50 years and attribute the strength and longevity of our leading position to our reputation for high quality and engineering excellence across the broad range of our product offerings. We are a vertically integrated manufacturer, with a supply chain that provides us with a greater ability to control the cost, quality and delivery of our products. In addition, because we develop, manufacture and sell products at each level of our vertically integrated manufacturing process, we are able to provide the broadest possible range of overall materials solutions to our customers. Currently, we consume approximately 50% of our

carbon fiber production and 25% of our reinforcement fabric production internally and sell the balance of our production to our customers.

*Strong Position as Qualified Supplier*

Generally, before advanced structural materials may be utilized in commercial and military aerospace applications, they must be qualified for use by the aircraft original equipment manufacturers ("OEMs") such as Airbus, Boeing and Lockheed Martin. The qualification process is typically time consuming and costly and requires that the product specification and manufacturing processes be certified and documented. This qualification process is focused on ensuring consistent manufacturing and the traceability of products and is part of the support aircraft manufacturers require to certify an aircraft with governmental agencies such as the Federal Aviation Administration or the Department of Defense. To limit variation, OEMs qualify a limited number of suppliers for any given product. Further, they rely upon a database of prior usage of a product in selecting materials to use in the manufacture of new aircraft programs. Airbus and Boeing, the largest commercial aircraft manufacturers in the world, use our qualified products in all of their commercial aircraft, and our carbon fiber is the only qualified carbon fiber on many U.S. and Western European military aircraft programs currently in production. We believe that we have the broadest range of product qualifications of any advanced structural materials manufacturer in the aerospace industry and have qualified products for use in a significant number of western commercial and military aircraft programs. In addition, aircraft programs typically have very long life cycles, with production runs often lasting 20 to 30 years or more. As a result of the high cost and increased risk associated with the qualification of a new supplier, as well as the strong relationships that develop with existing suppliers over time, OEMs generally do not add new suppliers once a program enters production.

*Visibility into the OEM Recovery*

The lead times for the manufacture of modern commercial and military aircraft are long. Changes in aircraft build rates are decided well in advance of changes in production as they take months to implement. Suppliers are notified very early in the planning stage regarding any changes in production requirements and periodically participate in rate readiness studies to determine whether the supply chain can support increases in aircraft production. We believe that knowing these production planning requirements gives us significant visibility into the expected demand for our products for the next twelve to eighteen months. Hexcel's advanced structural materials are typically delivered four to nine months prior to the production of an aircraft, whereas finished composite structures are delivered while an aircraft is being assembled. We are currently delivering materials that will be used to support the increase in commercial aircraft production well into 2005. Our close relationships with all the key OEMs and involvement in their production planning give us confidence in the near to mid-term prospects for our businesses.

*Industry and Geographic Diversity*

Approximately 43% of our net sales for the fiscal year ended December 31, 2003 were derived from the commercial aerospace industry; 20% from the space and defense industry; 6% from the electronics industry; and 31% from a wide range of industrial applications, including body armor products, wind turbine blades and recreational and automotive products. We believe that these industries are influenced by different factors that do not move in tandem, providing added diversification and stability to our business. Our revenues from market applications outside aerospace represented 37% of our 2003 sales. During the same period, we manufactured 55% of our products in the United States and 45% outside the United States, which offers additional

diversification benefits. We believe that this industry and geographic diversity provides us with growth platforms that allow us to serve the global needs of our customers.

*Growing Share of Growing Markets*

Many of the markets we serve with advanced structural materials, such as aerospace, wind energy and ballistic materials, have long-term positive fundamental growth trends. The use of advanced structural materials in aerospace and wind energy applications tends to expand faster than the market as our products are substituted for traditional materials such as aluminum, steel and wood. In commercial aerospace, for example, composite materials are increasingly being used to replace aluminum and other metals throughout the airframe. We believe that this substitution effect represents a long-term trend in the commercial and military aerospace industries, with composites representing an increasingly higher percentage of the total value of the airframe in each new aircraft generation. Early versions of commercial jet aircraft, like the Boeing 707, which was developed in the early-1950s, contained almost no composite materials. One of the first aircraft to use a meaningful amount of composite materials, the Boeing 767, entered service in 1983, and was built with an airframe containing approximately 6% composite materials. The airframe of Boeing's most recently developed aircraft, the 777, which entered service in 1995, is approximately 11% composite. By comparison, the newest generation of aircraft in development, including the Airbus A380 and Boeing 7E7, is expected to be built with airframes containing approximately 22% and 50% composite materials, respectively. Hexcel has been awarded contracts to supply substantial quantities of its products to the A380, including the materials to build the central wing box and aft fuselage. While Boeing has chosen another supplier to provide one advanced structural material product form for the wings and fuselage of the 7E7, the remaining opportunities for advanced structural materials are significant, and we believe that this will be an important aircraft for Hexcel. We believe that, following the 7E7, future generations of aircraft will contain increasingly higher percentages of composite materials. As a global leader in the production of advanced structural materials for the commercial aerospace industry, we believe that we are well positioned to benefit from these trends.

*Significant Operating Leverage*

Following the industry downturn that began in late 2001, we restructured our company, reducing our annual cash fixed costs by 23%, or $66.4 million, in 2002, primarily through company-wide reductions in managerial, professional, indirect manufacturing and administrative employees along with organizational rationalization. In the last two years, we have maintained the lean organization we created so that any increase in sales will result in a proportionally greater increase in our profitability. Our 2004 year-to-date operating performance has demonstrated the operating leverage we can extract from revenue growth with operating income for the nine months ended September 30, 2004 increasing by 38% on revenue growth of 18% when compared with the same period in 2003. As our commercial aircraft revenue grows as a result of increasing aircraft production rates, we should continue to benefit from our controlled fixed costs, further expanding margins and generating increased amounts of free cash flow.

*Manufacturing and Technical Expertise*

We have been a leader in advanced structural materials technology for over 50 years. We believe that the range of technologies and products that we have developed over this period gives us a depth of manufacturing expertise and breadth of products and approvals that would be difficult for competition to replicate in our industry. Our manufacturing and development facilities in the U.S. and Europe offer local support to our customers' needs while leveraging our global capabilities and experience. Our technically oriented sales force and research and development staff work with new

and existing customers to identify and engineer solutions to meet our customers' needs, particularly by identifying areas where new and existing advanced structural materials may beneficially replace traditional materials.

*Experienced, Proven and Motivated Management Team*

We believe that our management team provides broad experience and expertise in the advanced structural materials business and its industries. David E. Berges, our Chairman, President and Chief Executive Officer, has over 30 years of experience with manufacturing organizations serving aerospace, automotive and industrial applications. Prior to joining us, Mr. Berges served as President of Honeywell's (formerly AlliedSignal) Automotive Products Group, Vice President of their Aerospace Engine Systems and Accessories groups and served as President and Chief Operating Officer of Barnes Aerospace, Barnes Group Inc. following 15 years of operational and commercial leadership roles at General Electric Company. Our Executive Vice President and Chief Financial Officer, Stephen C. Forsyth, has been with Hexcel for 24 years in general management and financial positions and has been Chief Financial Officer for eight years. Our three business unit presidents have accumulated over 65 years of experience with Hexcel and our predecessor companies. A substantial portion of our management's total compensation is based on cash incentive awards linked primarily to the achievement of financial targets and on equity awards.

**Growth Strategy**

Our growth strategy is focused on maintaining our strong competitive differentiation while growing market share and revenue and enhancing profitability. Key elements of our growth strategy include the following:

*Expand Leadership Position in Commercial Aerospace Industry*

Commercial aerospace remains the largest market for advanced structural materials. We are the leading supplier of advanced structural materials to this industry, with strong positions at both Airbus and Boeing. We believe that underlying trends in the commercial aerospace market will drive growth in the future, and with it growth in the corresponding demand for advanced structural materials.

Significant trends in the commercial aerospace market include the following:

- increased usage of advanced structural materials in each new generation of commercial aircraft;
- increased aircraft retirement rates as a result of operating costs, noise reduction regulation and a desire to standardize fleets;
- increased emphasis on fuel efficiency and the design of new aircraft;
- increased air travel worldwide and, in particular, the Asian emerging economies, most notably China;
- European aviation deregulation; and
- the move to all new aircraft fleets by low cost carriers.

The commercial airline industry saw an upturn in air travel in 2003, and this trend has continued in 2004, bringing global revenue passenger miles back to 2000 levels. The positive trend continued in the first nine months of 2004 as global air traffic increased by approximately 18% over the first nine months of 2003, led by growth of approximately 29% in the Middle East region, 25% in the Asia-Pacific region and 17% in North America. In response to this increase in passenger traffic,

the global airline industry increased capacity by approximately 13% during the first nine months of 2004, led by capacity growth of approximately 24% in the Middle East region, 18% in the Asia-Pacific region and 11% in North America. The commercial aircraft industry is expected to remain a growth market over the long term, with industry sources projecting worldwide air traffic to grow at a compounded average rate of 5.6% during the 2003-2020 period, increasing annual revenue passenger miles from approximately 2 trillion in 2003 to approximately 5 trillion in 2020. The growth in revenue passenger miles will require substantial expansion of the worldwide fleet and OEM production rates. According to the July 2004 Airline Monitor, new deliveries of large commercial aircraft by Airbus and Boeing are expected to grow to 605 in 2004 from 573 in 2003, and then to 670 in 2005, 775 in 2006, 800 in 2007 and 835 in 2008. Industry experts expect that the worldwide fleet of commercial airlines will more than double over the 17-year period ending 2020.

We continue to pursue the increased use of advanced structural materials in each new generation of commercial aircraft. The Airbus A340-500/600 models for the first time utilize advanced structural materials to fabricate the keel beam and the rear pressure bulkhead. The Airbus A380 reflects further penetration of advanced structural materials because the airframe contains more than 10 times the composite content of the Boeing 747 with which it will compete. Boeing is currently developing the 7E7 aircraft that will utilize more advanced structural materials than any previous large commercial aircraft. We believe that the 7E7 will set the standard for the design of future commercial aircraft and the usage of advanced structural materials in their manufacture. We believe that we are well positioned to capitalize on growth trends in the commercial aerospace industry by continuing to produce a wide variety of advanced structural materials for use in the manufacture of commercial aircraft.

*Capitalize on Growing Military Aerospace Markets*

We continue to capitalize on the growth of military aircraft production. Military aircraft generally use a higher percentage of advanced structural materials and higher value products than commercial aircraft, and we are uniquely qualified to supply materials for a broad range of military aircraft and helicopters. After a slowdown in military aircraft production during the 1990s, a new generation of military aircraft has now entered production, driven in part by the need to replace aging fighter and transport aircraft platforms. The new programs include the F-22 (Raptor), the F/A-18E/F (Hornet), the C-17 transport, the European Fighter Aircraft (Typhoon), the V-22 (Osprey) tiltrotor aircraft and the NH90 helicopter. In the coming years, we expect to see the benefit of additional programs such as the F-35 Joint Strike Fighter ("JSF") and the A400M transport in Europe as well as from unmanned aerial vehicles. Military aircraft lead the trend of increasing usage of advanced structural materials. We estimate that while the airframe of the F/A-18 C/D had 13% composite content, the newer F/A-18E/F version is now 27% composite content. Newer aircraft such as the Eurofighter or the JSF will exceed 40% composite content. While the relative size of each program will be subject to government funding, the requirement to replace existing aircraft and the increased defense spending resulting from the war on terrorism are expected to result in military aircraft production this decade that will be significantly higher than during the last decade. We are the sole supplier of carbon fiber on a significant number of U.S.-based military aircraft programs, and therefore we are uniquely positioned to capitalize on the growth of these aircraft platforms.

*Capture Significant Share of Growing Wind Energy Market*

We believe that we are well positioned to generate revenue growth from the rapid expansion of the wind energy market. The American Wind Energy Association ("AWEA") has reported that global wind energy generating capacity has grown from 6,259 megawatts ("MW") in 1996 to 39,294 MW in 2003, representing a compounded annual growth rate of 30%. In 2003, 8,133 MW of capacity were installed, representing a 26% increase over installed capacity at the end of 2002. At the end of

2003, Europe as a whole, where we are the largest supplier of pre-impregnated composite materials ("prepregs") for these applications, represented approximately 74% of global installed capacity. German installed capacity, representing 37% of global installed capacity at the end of 2003, increased by 22% in 2003 to 14,609 MW. The growth in demand in Europe for renewable wind energy is driving the construction of large offshore wind farms, which benefit from more consistent wind patterns and the development of larger wind turbines and longer blades. The United States had the second largest installed capacity at the end of 2003, with approximately 6,374 MW, having increased by 36% in 2003. Key to the continuing growth of this market in the United States is the U.S. production tax credit for wind energy, which was renewed by Congress on September 28, 2004. The vast majority of blades on modern wind turbines are fabricated from fiber reinforced structural materials and with each new generation the sizes of the blades increase, creating the opportunity for greater use of our advanced structural materials. We believe that the combination of the superior technology of our products and the strength of our existing relationships in the wind energy industry will enable us to capitalize on the long term growth of this market.

*Expand Applications for Advanced Structural Materials*

We are committed to expanding the application of our advanced materials both within existing market applications and into new application markets. To date, advanced structural materials have found their greatest use in aerospace and recreation applications, where their performance properties have shown the most demonstrable value. We believe that these materials have potential uses in other structural engineering applications. Over the last two years, in addition to wind energy, we have generated significant growth in sales of our ballistics products from the expanded replacement programs by the U.S. military for body armor used by military personnel. As of the nine months ended September 30, 2004, ballistics sales have increased 80% compared to the same period in 2003. We are also pursuing growth opportunities in other military applications such as ground vehicles, naval vessels and platform armoring. To rise to these opportunities, we are continually improving our existing materials and developing new materials as well as seeking to drive down the end component cost for our customers. Recent developments have included:

- new generation of toughened and self-adhesive prepreg systems;
- HexMC®, a carbon fiber/epoxy sheet moulding compound that enables medium sized composite components to be produced in mass; and
- NC2, a unique mutli-axial reinforcement and binders for use in resin infusion applications.

We believe the breadth and depth of our advanced materials capabilities will serve us well in exploiting the potential of advanced structural materials.

**Other Information About Our Business**

We are incorporated under the laws of the State of Delaware. Our principal executive offices are located at Two Stamford Plaza, 281 Tresser Boulevard, Stamford, Connecticut 06901. Our general telephone number is 203-969-0666. The address of our website is *www.hexcel.com.* The information on our website is not part of this prospectus. For further information about our business, we refer you to our Annual Report on Form 10-K for the year ended December 31, 2003, and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, each of which is incorporated into this prospectus by reference.

**The Offering**

| | |
|---|---|
| Securities offered | 21,000,000 shares of common stock, par value $0.01 per share. |
| Over-allotment option granted by the selling stockholders | 3,149,998 shares to be provided by the Berkshire/Greenbriar investors (as defined below). |
| Selling stockholders | All the shares of common stock offered by this prospectus are to be sold by the selling stockholders listed in "Selling Stockholders." We will not offer any shares of common stock in this offering. |
| Shares of common stock outstanding before this offering | 40,381,080 shares. |
| Shares of common stock outstanding after this offering | 50,280,994 shares. |
| Use of proceeds | We will not receive any proceeds from the sale of the shares of common stock being offered by this prospectus. |
| NYSE symbol | HXL. |
| Accelerated charge | We will record an "accelerated charge" immediately upon the conversion of the 14,466 shares of series A convertible preferred stock and 77,875 shares of series B convertible preferred stock into common stock. Assuming the preferred stock conversion took place as of September 30, 2004, the accelerated charge would be $11.2 million. See the notes to the accompanying unaudited pro forma financial information. |

**Risk Factors**

Investing in our common stock involves substantial risk. See "Risk Factors" for a description of certain of the risks you should consider before investing in our common stock.

**Selling Stockholders**

Investment entities controlled by The Goldman Sachs Group, Inc., which we refer to in this prospectus as the "Goldman Sachs investors," hold capital stock representing approximately 37.0% of Hexcel's total voting power as of November 22, 2004. Affiliates of Berkshire Partners LLC and Greenbriar Equity Group LLC, which we refer to in this prospectus collectively as the "Berkshire/Greenbriar investors," hold preferred stock representing approximately 34.4% of Hexcel's total voting power as of November 22, 2004. The selling stockholders offering shares of common stock pursuant to this prospectus are the Goldman Sachs investors listed in the table under "Selling Stockholders" and the Berkshire/Greenbriar investors listed in the table under "Selling Stockholders." See "Selling Stockholders" for a description of each of the selling stockholders and "Certain Relationships and Related Transactions" for a discussion of our relationships with the Goldman Sachs investors and the Berkshire/Greenbriar investors. Immediately following the sale of the shares by the selling stockholders as contemplated by this prospectus, the Goldman Sachs investors will hold common stock and preferred stock representing 24.7% of the Company's total voting power and the Berkshire/Greenbriar investors will hold preferred stock representing 23.4% of the Company's total voting power, in each case assuming that the underwriters do not exercise their over-allotment option.

**Summary Financial Data**

The following table presents summary financial and other data with respect to the Company and has been derived from (1) the audited consolidated financial statements of the Company as of and for the three years ended December 31, 2003, (2) the unaudited condensed consolidated financial statements of the Company as of and for the nine months ended September 30, 2004 and 2003 and (3) the unaudited pro forma financial statements. The information set forth below should be read together with other information contained under the captions "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, unaudited pro forma financial information and the related notes thereto included or incorporated in this prospectus. Certain prior period gains on sales of assets have been reclassified to other (income) expense, net to conform to the 2004 presentation.

| | Year Ended | | | Nine Months Ended | | Nine Months Ended September 30, 2004 vs. Nine Months Ended September 30, 2003 % Change |
|---|---|---|---|---|---|---|
| | December 31, 2001 | December 31, 2002 | December 31, 2003 | September 30, 2003 | September 30, 2004 | |
| | (In millions, except per share data) | | | | | |
| **Statements of Operations Data:** | | | | | | |
| Net sales | $ 1,009.4 | $ 850.8 | $ 896.9 | $ 675.5 | $ 798.1 | 18.1% |
| Cost of sales | 818.6 | 689.5 | 722.4 | 542.3 | 627.1 | |
| Gross margin | 190.8 | 161.3 | 174.5 | 133.2 | 171.0 | 28.4 |
| Operating expenses: | | | | | | |
| Selling, general and administrative | 120.9 | 85.9 | 95.0 | 70.5 | 82.6 | |
| Research and technology | 18.6 | 14.7 | 17.7 | 13.2 | 15.2 | |
| Business consolidation and restructuring | 58.4 | 0.5 | 4.0 | 2.4 | 2.0 | |
| Impairment of goodwill and other purchased intangibles | 309.1 | | | | | |
| Other (income) expense, net(a) | | | (2.2) | (2.2) | 3.0 | |
| Operating income (loss) | (316.2) | 60.2 | 60.0 | 49.3 | 68.2 | 38.3 |
| Interest expense, net | 64.8 | 62.8 | 53.6 | 41.1 | 36.3 | |
| Non-operating (income) expense, net(b) | 2.7 | (10.3) | 2.6 | 2.6 | 0.6 | |
| Income (loss) before income taxes | (383.7) | 7.7 | 3.8 | 5.6 | 31.3 | 458.9 |
| Provision for income taxes | 40.5 | 11.3 | 13.5 | 5.9 | 10.9 | |
| Income (loss) before equity in earnings (losses) | (424.2) | (3.6) | (9.7) | (0.3) | 20.4 | |
| Equity in earnings (losses) of and write-downs of an investment in affiliated companies | (9.5) | (10.0) | (1.4) | (1.1) | 0.8 | |
| Net income (loss) | (433.7) | (13.6) | (11.1) | (1.4) | 21.2 | |
| Deemed preferred dividends and accretion | | | (9.6) | (6.6) | (9.4) | |
| | $ (433.7) | $ (13.6) | $ (20.7) | $ (8.0) | $ 11.8 | |

| | | | | | | Nine Months Ended September 30, 2004 vs. Nine Months Ended September 30, 2003 % Change |
|---|---|---|---|---|---|---|
| Net income (loss) available to common stockholders | | | | | | |
| *Net income (loss) per common share:* | | | | | | |
| Basic | $ | (11.54) $ | (0.35) $ | (0.54) $ | (0.21) $ | 0.30 |
| Diluted | $ | (11.54) $ | (0.35) $ | (0.54) $ | (0.21) $ | 0.23 |
| *Weighted average common shares outstanding:* | | | | | | |
| Basic | | 37.6 | 38.4 | 38.6 | 38.6 | 39.2 |
| Diluted | | 37.6 | 38.4 | 38.6 | 38.6 | 91.5 |

| | Year Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **December 31, 2001** | **December 31, 2002** | **December 31, 2003** | **September 30, 2003** | **September 30, 2004** |
| | **(In millions, except per share data)** | | | | |
| **Balance Sheet Data (end of period):** | | | | | |
| Cash and cash equivalents | $ 11.6 | $ 8.2 | $ 41.7 | $ 28.9 | $ 51.5 |
| Property, plant and equipment, net | 329.2 | 309.4 | 293.9 | 291.9 | 272.0 |
| Working capital | 83.7 | (530.8) | 140.7 | 132.0 | 160.4 |
| Total assets | 789.4 | 708.1 | 722.7 | 715.8 | 750.6 |
| Total debt | 685.9 | 621.7 | 483.4 | 487.3 | 457.4 |
| Mandatorily redeemable convertible preferred stock, 0.125 shares of Series A and 0.125 shares of Series B, authorized, issued and outstanding | | | 106.0 | 103.0 | 115.4 |
| Stockholders' equity (deficit) | (132.6) | (127.4) | (93.4) | (95.4) | (83.1) |
| **Pro Forma, as Adjusted(c):** | | | | | |
| Net income (loss) available to common stockholders | | | $ (18.9) | | $ 13.6 |
| *Net income (loss) per common share:* | | | | | |
| Basic | | | $ (0.41) | | $ 0.28 |
| Diluted | | | $ (0.41) | | $ 0.23 |
| *Weighted average common shares outstanding:* | | | | | |
| Basic | | | 46.4 | | 49.1 |
| Diluted | | | 46.4 | | 91.5 |
| **Other Financial Data:** | | | | | |
| Depreciation and amortization | $ 67.2 | $ 51.2 | $ 55.7 | $ 40.3 | $ 41.5 |
| Capital expenditures | 38.8 | 14.9 | 21.6 | 12.5 | 20.3 |
| Cash flows provided by operations | 35.0 | 65.9 | 46.9 | 27.2 | 45.5 |
| Cash flows provided by (used for) investing | (38.3) | (2.3) | 9.1 | 17.2 | (12.3) |
| Cash flows provided by (used for) financing | 8.6 | (67.3) | (26.9) | (23.2) | (23.7) |

**(a)**

**Other (income) expense, net consists of the following:**

| | Year Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **December 31, 2001** | **December 31, 2002** | **December 31, 2003** | **September 30, 2003** | **September 30, 2004** |
| | **(In millions)** | | | | |
| Gain on asset sales | $ | $ | $ (2.2) | $ (2.2) | $ (4.0) |
| Accrual for certain legal matters | | | | | 7.0 |
| Total | $ | $ | $ (2.2) | $ (2.2) | $ 3.0 |

(b)

**Non-operating (income) expense, net consists of the following:**

| | Year Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **December 31, 2001** | **December 31, 2002** | **December 31, 2003** | **September 30, 2003** | **September 30, 2004** |
| | | | **(In millions)** | | |
| (Gain) loss on the early retirement of debt | $ 2.7 | $ (0.5) | $ 4.0 | $ 4.0 | $ 1.6 |
| Gain on expiration of contingent liability | | | (1.4) | (1.4) | |
| Gain on demutualization of insurance company | | | | | (1.0) |
| Litigation gain | | (9.8) | | | |
| Total | $ 2.7 | $ (10.3) | $ 2.6 | $ 2.6 | $ 0.6 |

(c)

The unaudited pro forma statements of operations have been prepared to illustrate the effect of the conversion of 14,466 shares of Series A and 77,875 shares of Series B mandatorily redeemable convertible preferred stock in connection with this offering into 9,899,914 shares of the Company's common stock. Assuming the above preferred stock conversion took place as of March 19, 2003 (the earliest possible conversion date in 2003), the Company would have recorded an additional deemed preferred dividends and accretion charge within its Statement of Operations of $13.9 million for the year ended December 31, 2003. The accelerated charge has not been reflected in the pro forma statement of operations. In addition, the Company expects to incur transaction costs of $1.1 million in connection with this offering, which have not been reflected in the pro forma statements of operations. See "Unaudited Pro Forma Financial Information" included elsewhere in this prospectus.

## RISK FACTORS

*You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.*

**The industries in which we operate are cyclical, and downturns in them may adversely affect the results of our operations.**

The core industries in which we operate are, to varying degrees, cyclical and have historically experienced downturns. We are currently in an upturn of demand in the commercial aerospace, wind energy, electronics and ballistics industries. However, a downturn in these industries could occur at any time, and in the event of a downturn, we have no way of knowing if, when and to what extent there might be a recovery. Any deterioration in these industries could adversely affect our financial performance and operating results.

While Boeing and Airbus have indicated that they will increase their production and deliveries of commercial aircraft in 2005, the demand for new commercial aircraft is cyclical and any reduction could result in reduced net sales for our commercial aerospace products and could reduce our profit margins. Approximately 43% of our net sales for the year ended December 31, 2003 and 43% of our net sales for the nine months ended September 30, 2004 were derived from sales to the commercial aerospace industry. Reductions in demand for commercial aircraft or a delay in deliveries could result from many factors, including a terrorist event similar to that which occurred on September 11, 2001 and any subsequent military response, changes in the propensity for the general public to travel by air, the rise in the cost of aviation fuel, consolidation and liquidation of airlines and slower macroeconomic growth.

In addition, our customers continue to emphasize the need for improved yield in the use of our products and cost reduction throughout the commercial aerospace supply chain. In response to these pressures, we reduced the price of some commercial aerospace products in recent years and are likely to continue to do so in the future. Where possible, we seek to offset or mitigate the impact of such price and cost reductions by productivity improvements and reductions in the costs of the materials and services we procure.

**A significant decline in business with Boeing, EADS or other significant customers could materially impair our business, operating results, prospects and financial condition.**

Approximately 23% and 24% of our net sales for the years ended December 31, 2003 and December 31, 2002, respectively, were made to Boeing and its related subcontractors. Approximately 19% and 16% of our net sales for the years ended December 31, 2003 and December 31, 2002, respectively, were made to EADS, including Airbus and related subcontractors. Accordingly, the loss of, or significant reduction in purchases by, either of these customers or other significant customers could materially impair our operating results and weaken our financial condition.

**Reductions in space and defense spending could result in a decline in our net sales.**

The growth in military aircraft production that has occurred in recent years may not be sustained, production may not continue to grow and the increased demand for replacement helicopter blades as a result of the military activities in Afghanistan and Iraq may not be sustained. The production of military aircraft depends upon U.S. and European defense budgets and the related demand for defense and related equipment. These defense budgets may decline, and sales of defense and related equipment to foreign governments may not continue at expected levels. Approximately 20% of our net sales for the year ended December 31, 2003 and 18% of our net sales for the nine months ended September 30, 2004 were derived from space and defense

industries. The space and defense industries are largely dependent upon government defense budgets, particularly the U.S. defense budget.

**A decrease in supply or increase in cost of our raw materials could result in a material decline in our profitability.**

Because we purchase large volumes of raw materials, such as epoxy and phenolic resins, aluminum foil, carbon fiber, fiberglass yarn and aramid paper and fiber, any restrictions on the supply or the increase in the cost of the our raw materials could significantly reduce our profit margins. Restrictions on the supply or increase in price of our raw materials may not be able to be mitigated by long term purchase agreements, productivity improvements or by passing cost increases to our customers. Our profitability depends largely on the price and continuity of supply of these raw materials, which are supplied by a limited number of sources. With increased demand for carbon fiber and constrained supply, we are making capital expenditures to increase output from our own manufacturing capacity, and we are evaluating whether we will need to invest in new carbon fiber manufacturing capacity. In addition, qualification to use raw materials in some of our products limits the extent to which we are able to substitute alternative materials for these products. Our ability to pass on these costs to our customers is, to a large extent, dependent on the terms of our contracts with our customers and industry conditions, including the extent to which our customers would switch to alternative materials we do not produce in the event of an increase in the prices of our products.

**Our substantial international operations are subject to uncertainties which could affect our operating results.**

We believe that revenue from sales outside the U.S. will continue to account for a material portion of our total revenue for the foreseeable future. Additionally, we have invested significant resources in our international operations and we intend to continue to make such investments in the future. Our international operations are subject to numerous risks, including:

- the difficulty of enforcing agreements and collecting receivables through some foreign legal systems;
- foreign customers may have longer payment cycles than customers in the U.S.;
- compliance with U.S. Department of Commerce export controls;
- tax rates in some foreign countries may exceed those of the U.S. and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- general economic and political conditions in the countries where we operate may have an adverse effect on our operations in those countries or not be favorable to our growth strategy;
- the risk that foreign governments may adopt regulations or take other actions that would have a direct or indirect adverse impact on our business and market opportunities; and
- the potential difficulty in enforcing intellectual property rights in some foreign countries.

Any one of the above could adversely affect our financial condition and results of operations.

In addition, fluctuations in currency exchange rates may influence the profitability and cash flows of our business. For example, our European operations sell some of the products they produce in U.S. dollars, yet the labor and overhead costs incurred in the manufacture of those products is denominated in Euros or British Pound Sterling. As a result, the local currency margins of goods manufactured with costs denominated in local currency, yet sold in U.S. dollars, will vary with fluctuations in currency exchange rates. In addition, the reported U.S. dollar value of the local

currency financial statements of our foreign subsidiaries will vary with fluctuations in currency exchange rates. While we enter into currency exchange rate hedges from time to time to mitigate these types of fluctuations, we cannot remove all fluctuations or hedge all exposures and our earnings are impacted by changes in currency exchange rates.

During the past several years, some countries in which we operate or plan to operate have been characterized by varying degrees of inflation and uneven growth rates. We currently do not have political risk insurance in the countries in which we conduct business. While we carefully consider these risks when evaluating our international operations, we cannot assure you that we will not be materially adversely affected as a result of such risks.

**We could be adversely affected by environmental and safety requirements.**

Our operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials and wastes. As a result, we are subject to various federal, state, regional, local and foreign laws and regulations pertaining to pollution and protection of the environment, health and safety, governing among other things, emissions to air, discharge to waters and the generation, handling, storage, treatment and disposal of waste and remediation of contaminated sites. We have made, and will continue to make, capital and other expenditures in order to comply with these laws and regulations. However, the requirements of these laws and regulations are complex, change frequently and could become more stringent in the future.

We have been named as a "potentially responsible party" under the federal Superfund law or similar state laws at several sites requiring clean up based on disposal of wastes they generated. These laws generally impose liability for costs to investigate and remediate contamination without regard to fault. Under certain circumstances liability may be joint and several, resulting in one responsible party being held responsible for the entire obligation. Liability may also include damages to natural resources. In connection with our Lodi, New Jersey facility, we, along with the approximately 60 other companies, have been directed by state and federal regulatory authorities to contribute to the assessment and restoration of a stretch of the Passaic River, a project currently estimated to cost $1 billion. Although we are vigorously contesting our involvement with this project on scientific and legal grounds, we may ultimately be required to assume a share of the liability. We have also incurred and likely will continue to incur expenses to investigate and clean up several existing and former company-owned or leased properties. We have incurred substantial expenses for our work at these sites over a number of years, and these costs, for which we believe we have adequate reserves, will continue for the foreseeable future. The ongoing operation of our manufacturing plants also entails environmental risks and there can be no assurance that we will not incur material costs or liabilities in the future which could adversely affect us.

In addition, we may be required to comply with evolving environmental and health and safety laws, regulations or requirements that may be adopted or imposed in the future or to address newly discovered information or conditions that require a response.

Although most of our properties have been the subject of Environmental Site Assessments, there can be no assurance that all potential instances of soil and groundwater contamination have been identified, even at those sites where Environmental Site Assessments have been conducted. Accordingly, there can be no assurance that we will not discover previously unknown environmental conditions or that the cost of remediating such conditions will not be material. See the section entitled "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated herein by reference.

**The interests of our significant stockholders may be different than your interests.**

The Berkshire/Greenbriar investors and the Goldman Sachs investors each have the ability to influence our affairs so long as each maintains its ownership of respective specified percentages of our outstanding voting securities, and the interests of each of these investors may not in all cases be the same as your interests. As of November 22, 2004, the Goldman Sachs investors owned approximately 37.0% of our outstanding voting securities and the Berkshire/Greenbriar investors owned approximately 34.4% of our outstanding voting securities. Under our governance agreement with the Goldman Sachs investors, the Goldman Sachs investors are entitled to designate up to three people to serve on our ten-member Board of Directors, and are entitled to designate one director to serve on each committee of our Board of Directors. Under the stockholders agreement with the Berkshire/Greenbriar investors, the Berkshire/Greenbriar investors are entitled to designate up to two people to serve on our Board of Directors, and are entitled to designate one director to serve on each committee of our Board of Directors. In addition, the governance agreement and the stockholders agreement each provides that our Board of Directors will not authorize specified types of significant transactions without the approval of the directors designated by each of the respective investors. The interests of these investors may be different than your interests. See "Certain Relationships and Related Transactions" for a more detailed description of the governance agreement and the stockholders agreement.

**We have substantial debt that could limit our ability to satisfy our debt obligations and reduce the effectiveness of our operations.**

We have substantial debt and debt service requirements. We cannot assure you that we will generate sufficient cash flow from operations, or that we will be able to obtain sufficient funding, to satisfy our debt service obligations. Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. As of September 30, 2004, we had $457.4 million of total debt, or $405.9 million of total debt net of cash on hand. This substantial level of debt has important consequences, including:

- placing us at competitive disadvantage compared to our competitors that have less financial leverage;
- limiting our ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of our growth strategy and research and development costs;
- limiting our ability to use operating cash flow for working capital, capital expenditures, debt service requirements and other areas of our business;
- increasing our vulnerability to general adverse economic and industry conditions; and
- limiting our ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in government regulation.

In addition, the operating and financial restrictions and covenants that are contained in our existing debt agreements may impair our ability to finance future operations or capital needs. In addition, our senior credit facility requires that we maintain compliance with specified financial ratios. A breach of any of these restrictions or covenants could cause a default with respect to our debt. A significant portion of our debt may then become immediately due and payable.

**If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.**

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We devote significant attention to establishing and maintaining effective internal controls. We are in the process of documenting, reviewing and, if appropriate, improving our internal controls and procedures in connection with Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. Both we and our independent auditors will be testing our internal controls in connection with the Section 404 requirements and could, as part of that documentation and testing, identify areas for further attention or improvement. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial reporting processes and related Section 404 reporting requirements. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Any such failure could also adversely affect our assessment of the effectiveness of our "internal control over financial reporting" that will be required when the Section 404 requirements become applicable to us beginning with the filing of our Annual Report on Form 10-K for the year ending December 31, 2004. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the market price of our stock.

**Our stock price may be volatile, and you may not be able to resell shares of our common stock at or above the price you paid.**

The trading prices of our common stock could be subject to significant fluctuations in response to, among other factors, variations in operating results, developments in the industries in which we do business, general economic conditions and changes in securities analysts' recommendations regarding our securities. Such volatility may adversely affect the market price of the common stock.

**This offering will result in a substantial amount of previously unregistered shares of our common stock being registered, which may depress the market price of our common stock.**

As of November 22, 2004, the number of outstanding shares of our common stock freely tradable on the New York Stock Exchange and not owned by the selling stockholders was approximately 25,856,080. After giving effect to this offering, this figure will increase to 46,856,080 (or 50,006,078 if the underwriters' over-allotment option is exercised). The sale of the shares of common stock in this offering could depress the market price of our common stock.

**Future sales of our common stock in the public market could lower our stock price.**

Sales of a substantial number of shares of common stock in the public market by our current stockholders, or the threat that substantial sales may occur, could cause the market price of our common stock to decrease significantly or make it difficult for us to raise additional capital by selling stock. See the section of this prospectus entitled "Shares Eligible for Future Sale" for details regarding the number of shares eligible for sale in the public market after this offering. Several of our existing stockholders, owning 43,342,407 shares of our common stock (including common stock into which such stockholders' preferred stock is convertible) after giving effect to this offering,

are parties to registration rights agreements with us. Under those agreements, certain of these stockholders will have the right to require us to effect the registration of their shares of common stock, including shares obtained upon conversion of their preferred stock. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

## USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders in this offering. The selling stockholders will receive all of the net proceeds from this offering.

## PRICE RANGE OF OUR COMMON STOCK

Our common stock is listed for trading on the New York Stock Exchange and the Pacific Exchange under the symbol "HXL." The following table sets forth the quarterly high and low closing prices of our common stock on the New York Stock Exchange for the periods indicated:

| | High | Low |
|---|---|---|
| Year Ended December 31, 2004 | | |
| First Quarter | $ 8.68 | $ 7.08 |
| Second Quarter | $ 11.89 | $ 6.81 |
| Third Quarter | $ 14.06 | $ 10.60 |
| Fourth Quarter (through November 23, 2004) | $ 17.75 | $ 14.07 |
| Year Ended December 31, 2003 | | |
| First Quarter | $ 3.25 | $ 2.60 |
| Second Quarter | $ 4.41 | $ 2.95 |
| Third Quarter | $ 6.71 | $ 3.75 |
| Fourth Quarter | $ 7.60 | $ 5.94 |
| Year Ended December 31, 2002 | | |
| First Quarter | $ 4.78 | $ 2.18 |
| Second Quarter | $ 5.15 | $ 3.74 |
| Third Quarter | $ 4.23 | $ 2.48 |
| Fourth Quarter | $ 3.10 | $ 1.33 |

On November 23, 2004, the closing sale price of our common stock as reported on the New York Stock Exchange was $16.61 per share.

## DIVIDEND POLICY

We have not paid any cash dividends on our common stock since October 27, 1992. We presently intend to retain any earnings for use in our business and do not anticipate paying cash dividends in the foreseeable future. In addition, certain of our debt agreements prohibit us from paying cash dividends.

**CAPITALIZATION**

The following table sets forth our cash and cash equivalents and our capitalization as of September 30, 2004 on an actual and pro forma basis. The pro forma capitalization has been prepared to illustrate the conversion of 14,466 shares of Series A and 77,875 shares of Series B mandatorily redeemable convertible preferred stock in connection with this offering into 9,899,914 shares of the Company's common stock as if the conversion had occurred as of September 30, 2004. Pro forma cash and cash equivalents are presented to reflect expected transaction costs to be paid in cash. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, unaudited pro forma financial information and related notes and other financial information included elsewhere in this prospectus.

| | As of September 30, 2004 | | |
|---|---|---|---|
| | Actual | Adjustments | Pro Forma |
| | | (In millions) | |
| **Cash and cash equivalents** | $ 51.5 | $ (1.1) | $ 50.4 |
| **Senior debt:** | | | |
| Senior secured credit facility due 2008 | $ | $ | $ |
| European credit and over draft facilities | 1.7 | | 1.7 |
| 9.875% Senior Secured Notes due 2008(a) | 124.1 | | 124.1 |
| Capital lease obligations | 3.9 | | 3.9 |
| Total senior debt | 129.7 | | 129.7 |
| **Other debt:** | | | |
| 9.75% Senior Subordinated Notes due 2009(b) | 306.7 | | 306.7 |
| 7% Convertible Subordinated Debentures due 2011 | 21.0 | | 21.0 |
| Total other debt | 327.7 | | 327.7 |
| Total debt | 457.4 | | 457.4 |
| **Mandatorily Redeemable Convertible Preferred Stock** | 115.4 | (19.4) | 96.0 |
| **Stockholders' equity (deficit):** | | | |
| Preferred stock, no par value, 20,000,000 shares authorized, no shares issued and outstanding | | | |
| Common stock, $0.01 par value, 200,000,000 shares authorized, 41,025,978 shares issued | 0.4 | 0.1 | 0.5 |
| Additional paid-in capital | 299.9 | 19.3 | 319.2 |
| Accumulated deficit | (371.4) | (1.1) | (372.5) |
| Accumulated other comprehensive income | 2.0 | | 2.0 |
| | (69.1) | 18.3 | (50.8) |
| Less: Treasury stock, at cost, 1,370,006 shares | (14.0) | | (14.0) |
| Total stockholders' equity (deficit) | (83.1) | 18.3 | (64.8) |

| | As of September 30, 2004 | | |
|---|---|---|---|
| Total capitalization | $ 489.7 | $ (1.1) | $ 488.6 |

(a) Net of unamortized discount of $0.9 million as of September 30, 2004.

(b) Net of unamortized discount of $0.7 million as of September 30, 2004.

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

**Results of Operations**

***Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003***

| (In millions, except per share data) | Nine Months Ended September 30, Unaudited 2004 | 2003 |
|---|---|---|
| Net sales | $ 798.1 | $ 675.5 |
| Gross margin % | 21.4% | 19.7% |
| Operating income | $ 68.2 | $ 49.3 |
| Operating income % | 8.5% | 7.3% |
| Non-operating expense, net | $ 0.6 | $ 2.6 |
| Provision for income taxes | $ 10.9 | $ 5.9 |
| Equity in earnings (losses) of affiliated companies | $ 0.8 | $ (1.1) |
| Net income (loss) | $ 21.2 | $ (1.4) |
| Deemed preferred dividends and accretion | $ (9.4) | $ (6.6) |
| Net income (loss) available to common shareholders | $ 11.8 | $ (8.0) |
| Diluted net income (loss) per common share | $ 0.23 | $ (0.21) |

***Net Sales:*** Net sales for the first nine months of 2004 were $798.1 million, an increase of $122.6 million, or 18.1%, when compared to the first nine months of 2003 net sales of $675.5 million. The increase came from growth in the Company's revenues from all four of its major market segments along with a favorable impact from changes in foreign currency exchange rates. Had the same U.S. dollar, British Pound Sterling and Euro exchange rates applied in the first nine months of 2004 as in the first nine months of 2003, net sales for the first nine months of 2004 would have been $776.4 million, $100.9 million, or 14.9%, higher than the first nine months of 2003.

The following table summarizes net sales to third-party customers by product group and market segment for the nine months ended September 30, 2004 and 2003, respectively:

| (In millions) | Unaudited Commercial Aerospace | Industrial | Space & Defense | Electronics | Total |
|---|---|---|---|---|---|
| ***First Nine Months 2004*** | | | | | |
| Reinforcements | $ 47.7 | $ 147.8 | $ | $ 47.9 | $ 243.4 |
| Composites | 248.9 | 118.0 | 135.1 | | 502.0 |
| Structures | 45.0 | | 7.7 | | 52.7 |
| Total | $ 341.6 | $ 265.8 | $ 142.8 | $ 47.9 | $ 798.1 |
| | 43% | 33% | 18% | 6% | 100% |

| | Unaudited | | | | |
|---|---|---|---|---|---|
| (In millions) | Commercial Aerospace | Industrial | Space & Defense | Electronics | Total |
| ***First Nine Months 2003*** | | | | | |
| Reinforcements | $ 38.6 | $ 93.7 | $ | $ 40.4 | $ 172.7 |
| Composites | 209.6 | 108.4 | 123.2 | | 441.2 |
| Structures | 50.7 | | 10.9 | | 61.6 |
| Total | $ 298.9 | $ 202.1 | $ 134.1 | $ 40.4 | $ 675.5 |
| | 44% | 30% | 20% | 6% | 100% |

*Commercial Aerospace:* Net sales increased $42.7 million, or 14.3%, to $341.6 million for the first nine months of 2004 as compared to net sales of $298.9 million for the first nine months of 2003. After adjusting for favorable exchange rates, net sales to the commercial aerospace market increased $35.9 million, or 12.0%, to $334.8 million. In the last few months, the Company has seen the benefit of the planned increases in the number of aircraft that Boeing and Airbus will manufacture and deliver in 2005 compared to 2004, as the Company delivers its products four to six months ahead of when its customers deliver their aircraft. The Company has also benefited from the favorable mix of aircraft being manufactured by its customers that utilize more composite materials and the ramp up of production related to the new Airbus A380 program.

*Industrial:* Net sales of $265.8 million for the first nine months of 2004 increased by $63.7 million, or 31.5%, compared to net sales of $202.1 million in the first nine months of 2003. While the strength of the British Pound Sterling and Euro inflated the value of sales of certain products by $9.6 million, net sales to the industrial market segments still increased $54.1 million year-on-year on strong growth in reinforcement fabrics used in military body armor applications. Sales of composite materials to recreational and wind energy applications also increased year-on-year. Revenues from products used in other non-aerospace applications, including architectural and automotive, showed mixed results.

*Space & Defense:* Net sales to the space and defense market segment continued to display the benefits of increasing military aircraft production with an $8.7 million, or 6.5%, year-over-year increase to $142.8 million for the first nine months of 2004. On a constant foreign currency basis, net sales to this market increased $4.6 million, or 3.4%, year-on-year to $138.7 million. The year-on-year growth was led by increased production of the F-22 Raptor, and higher demand for many U.S. and European helicopter and helicopter blade replacement programs, despite the cancellation of the Comanche helicopter program during the first quarter of 2004. Sales to the Comanche program were $4.4 million and $9.3 million in the first nine months of 2004 and 2003, respectively, and $14.1 million for the full year of 2003. The Company provides materials to a wide range of military programs. Over time, the revenues the Company obtains from these programs tend to vary quarter by quarter based on customer ordering patterns and the timing and extent of program funding.

*Electronics:* Net sales of $47.9 million for the first nine months of 2004 increased by $7.5 million, or 18.6%, compared to net sales of $40.4 million for the same period last year. If adjusted for the favorable impact of exchange rates, revenues to this market segment would have been $46.7 million in the first nine months of 2004. The Company's focus on advanced technology materials and specialty applications, together with some recovery in industry demand, continues to contribute to enhanced performance in this market segment.

***Gross Margin:*** Gross margin for the first nine months of 2004 was $171.0 million, or 21.4% of net sales, compared to gross margin of $133.2 million, or 19.7% of net sales, for the same period in 2003. The $37.8 million year-on-year improvement in gross margin reflects the impact of the

contribution from higher net sales and the continuing benefits obtained from the Company's cost reduction programs implemented over the past several years. Depreciation was $38.9 million and $37.7 million for the nine months ended September 30, 2004 and 2003, respectively. The increase in depreciation primarily reflects changes in foreign currency exchange rates, higher capital expenditure rates, and accelerated depreciation associated with certain of the Company's business consolidation and restructuring actions.

***Selling, General and Administrative ("SG&A") Expenses:*** SG&A expenses were $82.6 million, or 10.3% of net sales, for the first nine months of 2004 compared with $70.5 million, or 10.4% of net sales, for the first nine months of 2003. The increase in SG&A expenses reflects, among other factors, a $2.3 million provision against accounts receivable from Second Chance Body Armor following their Chapter 11 filing on October 17, 2004, higher professional fees, incentive compensation and the impact of higher foreign currency exchange rates. As the U.S. dollar has weakened against the British Pound Sterling and Euro since September 30, 2003, SG&A expenses were approximately $2.6 million higher in the first nine months of 2004.

***Research and Technology ("R&T") Expenses:*** R&T expenses for the first nine months of 2004 were $15.2 million compared with $13.2 million for the first nine months of 2003. R&T expenses were 1.9% of net sales for the third quarter of 2004 and 2.0% of net sales for the third quarter of 2003. The $2.0 million, or 15.2%, year-over-year increase in R&T expenses reflects the Company's increased spending in support of new products and new commercial aircraft qualification activities, and the impact of changes in foreign currency exchange rates.

***Other (Income) Expense, Net:*** Other expense, net was $3.0 million for the first nine months of 2004. During the first nine months of 2004, the Company recorded an accrual of $7.0 million in connection with a stipulation of settlement for the same amount, signed with the plaintiffs on September 30, 2004, in the ongoing carbon fiber federal class action case. In addition, during the first nine months of 2004 the Company sold surplus land at one of its U.S. manufacturing facilities for net cash proceeds of $6.5 million and recognized a net $4.0 million gain on the sale.

For the first nine months of 2003, the Company recognized other income of $2.2 million. During the second and third quarters of 2003, the Company sold certain assets of its Structures business segment for net cash proceeds of $3.0 million and $2.7 million, respectively, recognizing a net gain of $1.8 million in the second quarter of 2003 and a net gain of $0.4 million in the third quarter of 2003. Refer to Note 7 to the accompanying condensed consolidated financial statements.

***Operating Income:*** Operating income for the first nine months of 2004 was $68.2 million, or 8.5% of net sales, compared with operating income of $49.3 million, or 7.3% of net sales, for the same period in 2003. The increase in operating income was driven by increased net sales and a higher gross margin, which was partially offset by higher SG&A and R&T expenses as well as Other Expense. Business consolidation and restructuring expenses were $2.0 million in the first nine months of 2004, compared to $2.4 million in the first nine months of 2003.

***Interest Expense:*** Interest expense for the first nine months of 2004 was $36.3 million compared to $41.1 million for the first nine months of 2003. The $4.8 million year-on-year decrease in interest expense primarily reflects the substantial reduction in total debt during the 2003 calendar year, along with further reductions in the first half of 2004, and a $1.6 million reduction in interest expense resulting from an interest rate swap agreement entered into during the fourth quarter of 2003.

***Non-Operating (Income) Expense, Net:*** Non-operating expense, net was $0.6 million for the first nine months of 2004, as the Company recognized a $1.6 million loss on the early retirement of

debt. The loss was partially offset by a $1.0 million gain attributable to the sale of securities obtained through a de-mutualization of an insurance company.

For the first nine months of 2003, the Company recognized non-operating expense, net of $2.6 million. In connection with its refinancing of its capital structure in the first quarter of 2003, the Company incurred a $4.0 million loss on the early retirement of debt due to the write-off of unamortized deferred financing costs relating to the former senior credit facility and the 7% convertible subordinated notes due 2003. This loss was partially offset by a $1.4 million gain attributable to a prior business sale, which occurred in April 2000. Pursuant to the sale agreement, Hexcel retained a contingent obligation for certain customer warranty claims, which expired in the second quarter of 2003. As a result, the Company reversed the $1.4 million contingent liability established at the time of the sale. Refer to Note 8 to the accompanying condensed consolidated financial statements.

***Provision for Income Taxes:*** The provisions for income taxes of $10.9 million and $5.9 million for the first nine months of 2004 and 2003, respectively, were primarily for taxes on European income. The Company will continue to adjust its tax provision rate through the establishment, or release, of a non-cash valuation allowance attributable to currently generated U.S. and Belgian net operating income (losses) until such time as the U.S. and Belgian operations, respectively, generate sufficient taxable income to utilize the net operating losses in full. Refer to Note 12 to the accompanying condensed consolidated financial statements.

***Equity in Earnings (Losses) of Affiliated Companies:*** Equity in earnings of affiliated companies for the first nine months of 2004 was $0.8 million, compared to equity in losses of $1.1 million for the first nine months of 2003. The year-over-year improvement resulted from higher equity in earnings reported by the Reinforcements business segment's joint venture and lower equity in losses associated with the Structures business segment's joint ventures in China and Malaysia. Equity in earnings (losses) of affiliated companies does not affect the Company's cash flows. Refer to Note 13 to the accompanying condensed consolidated financial statements.

***Deemed Preferred Dividends and Accretion:*** For the first nine months of 2004 and 2003, the Company recognized deemed preferred dividends and accretion of $9.4 million and $6.6 million, respectively. The recording of deemed preferred dividends and accretion began March 19, 2003; the date the Company completed the refinancing of its capital structure. Until such time as the mandatorily redeemable convertible preferred stock is converted to Hexcel common stock or redeemed, certain deductions for accrued dividends, discount, beneficial conversion feature, and deferred issuance costs will represent a reduction of net income (loss) in arriving at net income (loss) available to common shareholders. The accretion of these deductions is a non-cash expense at the time of recognition.

***2003 Compared to 2002***

| | Year Ended December 31, | | |
|---|---|---|---|
| **(In millions, except per share data)** | **2003** | **2002** | **2001** |
| Net sales | **$ 896.9** | $ 850.8 | $ 1,009.4 |
| Gross margin % | **19.5%** | 19.0% | 18.9% |
| Operating income (loss) | **$ 57.8** | $ 60.2 | $ (316.2) |
| Operating income (loss) % | **6.4%** | 7.1% | (31.3)% |
| Other income (expense), net | **$ (0.4)** | $ 10.3 | $ (2.7) |
| Provision for income taxes (a) | **$ 13.5** | $ 11.3 | $ 40.5 |
| Equity in losses of and write-downs of an investment in affiliated companies | **$ (1.4)** | $ (10.0) | $ (9.5) |
| Net loss | **$ (11.1)** | $ (13.6) | $ (433.7) |
| Deemed preferred dividends and accretion | **$ (9.6)** | $ | $ |
| Net loss available to common shareholders | **$ (20.7)** | $ (13.6) | $ (433.7) |
| Diluted net loss per common share | **$ (0.54)** | $ (0.35) | $ (11.54) |

(a) The Company's tax provision primarily reflects taxes on foreign income. Included in the 2003 year-end results is the impact of recognizing a non-cash valuation allowance on a Belgian deferred tax asset of $4.7 million. The Company will continue to adjust its tax provision rate through the establishment, or release, of a non-cash valuation allowance attributable to currently generated U.S. and Belgian net operating income (losses) until such time as the U.S. and Belgian operations, respectively, generate income in future years to utilize the net operating losses in full.

***Net Sales:*** Consolidated net sales of $896.9 million for 2003 were $46.1 million, or 5.4%, higher than the $850.8 million of net sales for 2002, primarily through growth in space and defense markets and a favorable impact of changes in foreign currency exchange rates. Space and defense revenues increased $31.8 million, or 21.6%, year-on-year, reflecting higher military aircraft production and non-recurring revenues associated with an aircraft in development and tooling. Approximately $6.8 million of the increase to these markets was due to foreign currency exchange rates. Since the end of 2002, the Euro and the British pound sterling have strengthened against the U.S. dollar increasing the dollar value of sales made in euros and pounds. Had the same U.S. dollar, British pound sterling and Euro exchange rates applied in 2003 as in 2002, consolidated net sales for 2003 would have been $6.5 million higher than the 2002 net sales of $850.8 million at $857.3 million.

The following table summarizes net sales to third-party customers by segment and end market in 2003 and 2002:

| | Unaudited | | | | |
|---|---|---|---|---|---|
| **(In millions)** | **Commercial Aerospace** | **Industrial** | **Space & Defense** | **Electronics** | **Total** |
| ***2003 Net Sales*** | | | | | |
| Reinforcements | $ 51.1 | $ 128.9 | $ | $ 52.8 | $ 232.8 |
| Composites | 273.6 | 146.0 | 165.2 | | 584.8 |
| Structures | 65.2 | | 14.1 | | 79.3 |
| Total | $ 389.9 | $ 274.9 | $ 179.3 | $ 52.8 | $ 896.9 |
| | 43% | 31% | 20% | 6% | 100% |
| ***2002 Net Sales*** | | | | | |
| Reinforcements | $ 49.0 | $ 110.6 | $ | $ 58.3 | $ 217.9 |
| Composites | 256.6 | 143.3 | 132.5 | | 532.4 |
| Structures | 85.5 | | 15.0 | | 100.5 |
| Total | $ 391.1 | $ 253.9 | $ 147.5 | $ 58.3 | $ 850.8 |
| | 46% | 30% | 17% | 7% | 100% |

*Commercial Aerospace:* Net sales to the commercial aerospace market decreased slightly to $389.9 million for 2003 as compared to net sales of $391.1 million for 2002. Although sales by the Reinforcements and Composites business segments were up over 4.3% and 6.6%, respectively, revenues from the Structures business segment declined 23.7% reflecting year-on-year reductions in Boeing's commercial aircraft build rates and continued transition of work to the Company's Asian joint ventures. If adjusted to eliminate the favorable impact of changes in exchange rates, total sales to the commercial aerospace market would have declined by $11.9 million, or 3.0%, compared to 2002. Net sales by the Reinforcements and Composites business segments would have been $47.8 million and $266.2 million, respectively. There was no exchange rate impact on sales by the Structures business segment.

The sharp downturn in commercial aircraft build rates, that affected the Company's revenues from the start of 2002, appears to have leveled off. While Boeing delivered 281 aircraft in 2003, down from 381 and 527 in 2002 and 2001, respectively, Airbus' deliveries of 305 aircraft in 2003 were slightly above deliveries achieved in 2002. Boeing has publicly forecasted that its deliveries in 2004 will remain at a level between 275 and 290 aircraft; and Airbus has indicated its 2004 deliveries and production will be approximately 300 aircraft. As commercial aircraft build rates in 2004 are projected to be comparable to last year, the Company anticipates that its 2004 commercial aerospace revenues will be at a similar level to 2003.

The recovery of the Company's commercial aerospace revenues, when it occurs, will not only be influenced by increases in commercial aircraft order and build rates, but also by the mix of aircraft that are produced, as twin aisle aircraft use more of Hexcel's products than narrow body aircraft and newly designed aircraft use more of Hexcel's products than aircraft of older generations. For instance, Airbus has indicated that its new jumbo aircraft, the Airbus A380 will have the highest advanced structural material content to-date of a large commercial aircraft when it enters service in 2006. Hexcel's deliveries of material for this aircraft have already begun to support certification and test requirements. Airbus has advised that it anticipates the A380 will have about 22% of its dry weight built from advanced structural materials, 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. Furthermore, during 2003, Boeing announced its plan to develop and launch the Boeing 7E7 which it anticipates will have an even greater content of advanced structural materials. This trend continues to expand the market opportunity for advanced structural materials, and

Hexcel and other composite materials manufacturers are developing a wide range of materials to meet the challenges of new commercial aircraft programs. Of course, the benefit Hexcel ultimately derives from programs such as the 7E7 will depend upon a number of factors, including the design requirements of its customers, the suitability of the Company's products to meet those requirements, the competitive position of the Company's products against similar products offered by the Company's competitors, and the requirements its customers and their subcontractors award to the Company.

*Industrial:* Net sales of $274.9 million for 2003 increased by $21.0 million, or 8.3%, compared to net sales of $253.9 million in 2002. The strength of the Euro inflated the value of 2003 sales of certain products, such as products used in wind energy, architectural and recreational product applications. Excluding the favorable impact on foreign currency exchange rates, net sales to this market would have been comparatively flat year-over-year. Both sales of reinforcement fabrics used in soft body armor and sales of composite materials used in recreational equipment showed double-digit growth in 2003. Wind energy revenues were lower in the second half of 2003 compared to the second half of 2002, and for the full year, due to customer requirements and new product transitions. Revenues from all other products used in other non-aerospace applications, including architectural, automotive and industrial, showed mixed results. As sales of ballistic reinforcement fabrics for military applications seem set to remain at the current high levels in 2004 and wind energy revenues are anticipated to grow through both market growth and product evolution, the Company has forecasted that its industrial revenues will show modest growth in 2004.

*Space & Defense:* Net sales of $179.3 million increased $31.8 million, or 21.6%, in 2003. On a constant foreign currency basis, net sales to this market were up $25.0 million, or 16.9%, year-on-year. The increase was led by higher aircraft production, as well as $7.2 million of non-recurring tooling revenues associated with an aircraft in development. In general, the Company continues to benefit from its extensive qualifications to supply composite materials and, in some cases, composite structures to a broad range of military aircraft and helicopter programs, including 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 obtains from these programs tend to vary quarter to quarter based on customer ordering patterns and will often depend upon the timing and extent of program funding. For example, the Department of Defense announced its plan to cancel the RAH-66 Comanche program on February 23, 2004. Space applications for advanced structural materials include solid rocket booster cases; farings and payload doors for launch vehicles; and buss and solar arrays for military and commercial satellites. The production of both launch vehicles and satellites has declined in recent years from a peak in the late 1990s. Overall, the Company anticipates modest revenue growth from this market in 2004.

*Electronics:* Net sales of $52.8 million in 2003 declined $5.5 million, or 9.4%, year-over-year. Although the Company did see a small improvement in the Company's sales in the U.S., it was more than offset by further declines in Europe. Sales of fiberglass fabric substrates used in the fabrication of printed wiring boards continued to be affected by weakness in the global electronics market and pricing pressures from excess production capacity. In addition, a migration of electronics equipment production from the United States to Asia continues to put additional pressure on the Company's electronics business. However, the Company's electronics customers, particularly those serving the high-technology end of the market, are more optimistic going into 2004 than they were this time last year.

***Gross Margin:*** Gross margin for 2003 was $174.5 million, or 19.5% of net sales, compared to gross margin of $161.3 million, or 19.0% of net sales, in 2002. The $13.2 million year-on-year improvement in gross margin reflected the impact of higher net sales and the benefits obtained

from the Company's cost reduction programs, as operations have adjusted to lower levels of production. These benefits obtained were offset slightly by higher depreciation and utility costs. Depreciation increased $5.0 million to $52.2 million in 2003 from $47.2 million in 2002. The increase in depreciation primarily reflected changes in foreign currency exchange rates and increased depreciation associated with certain of the Company's restructuring actions.

Although the gross margin in the Reinforcements business segment increased $0.4 million compared to 2002, gross margin as a percentage of sales actually declined one percentage point to 11.8% in 2003. Higher variable manufacturing costs and product mix contributed to the decline in gross margin as a percentage of sales. For instance, during 2003 the Reinforcements business segment experienced a large increase in lower margin sales to the Ballistics market while sales in the higher margin electronics market declined. Gross margin earned by the Composites business segment was $11.4 million higher than 2002. Reductions in manufacturing cost contributed to gross margin results and enabled gross margin as a percentage of sales to remain relatively steady in the Composites segment year-over-year. Gross margin at the Structures business segment increased $1.8 million year-over-year to $6.4 million in 2003. The Structures segment's gross margin improvement results primarily from manufacturing cost reductions obtained through previously implemented business consolidation and restructuring programs, as the business segment continues to transition certain existing programs to build composite structures for commercial aircraft to its Asian joint ventures.

***Selling, General and Administrative ("SG&A") Expenses:*** SG&A expenses were $95.0 million, or 10.6% of net sales, for 2003 compared with $85.9 million, or 10.1% of net sales, for 2002. The year-on-year increase in SG&A expenses reflected the impact of higher foreign currency exchange rates of $5.7 million, as the U.S. dollar had weakened against the British pound and Euro since the end of 2002, along with higher insurance premiums and new regulatory compliance costs. Included in SG&A expenses for 2003 were $0.5 million of incremental expenses related to a work stoppage at the Kent, Washington facility. Included in SG&A expenses for 2002 were approximately $1.5 million of expenses associated with the Company's agreement to issue mandatorily redeemable convertible preferred stock.

***Research and Technology ("R&T") Expenses:*** R&T expenses for 2003 were $17.7 million, or 2.0% of net sales, compared with $14.7 million, or 1.7% of net sales, for 2002. The $3.0 million increase was due to increased spending in support of new products and new commercial aircraft qualification activities and the impact of higher foreign currency exchange rates.

***Operating Income:*** Operating income for 2003 was $57.8 million, or 6.4% of net sales, compared with operating income of $60.2 million, or 7.1% of net sales, for 2002. The decline in operating income was driven by higher SG&A, R&T, and business consolidation and restructuring expenses, partially offset by the year-over-year increase in gross margin. Business consolidation and restructuring expenses were $4.0 million in 2003 compared to $0.5 million in 2002, and primarily related to an increase in equipment relocation and re-qualification costs that were expensed as incurred.

Operating income at the Reinforcements business segment declined $3.4 million, as compared with 2002, to $16.2 million. The decline was due to higher SG&A and R&T expenses of $1.5 million and a $2.3 million increase in business consolidation and restructuring expenses, partially offset by an increase in gross margin of $0.4 million. The Composites segment's operating income increased $1.0 million year-over-year to $66.8 million in 2003. Although SG&A and R&T expenses increased $10.5 million from 2002, gross margin improved by $11.4 million and restructuring expenses declined $0.1 million year-over-year. The Structures segment's operating income improved by $1.6 million compared with 2002 to $2.0 million, primarily reflecting higher gross margin. The

Company did not allocate corporate operating expenses of $27.2 million and $25.6 million to operating segments in 2003 and 2002, respectively.

***Interest Expense:*** Interest expense for 2003 was $53.6 million compared to $62.8 million for 2002. The $9.2 million decline in interest expense reflected lower debt balances, fees and amortization rates. During 2003, the Company lowered its outstanding debt by $138.3 million, reducing cash interest expense by $6.7 million. In addition, banking, commitment and amendment fees declined $2.0 million year-over-year to $1.7 million in 2003. Amortization of financing costs and discounts were $0.5 million lower than in 2002.

***Other Income (Expense):*** Other income (expense) was a net expense of $0.4 million for 2003 compared to income of $10.3 million for 2002. The net expense of $0.4 million in 2003 included a $4.0 million loss on early retirement of debt offset by net gains of $2.2 million, net of customary closing costs, from the sale of certain assets of the Company's Structures business segment and a $1.4 million gain attributable to the expiration of a contingent obligation of a prior business sale. The $4.0 million loss on early retirement of debt was incurred in connection with the refinancing transactions executed in March 2003, as the Company wrote-off unamortized deferred financing costs relating to the former senior credit facility and the 7% convertible subordinated notes, due 2003.

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 Company also recognized a $0.5 million gain in 2002 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.

***Provision for Income Taxes:*** The provisions for income taxes of $13.5 million and $11.3 million for 2003 and 2002, respectively, were primarily for taxes on European income and included a non-cash valuation allowance of $4.7 million in 2003 on a deferred tax asset previously recognized by a Belgian subsidiary. The Company will continue to adjust its tax provision rate through the establishment, or release, of a non-cash valuation allowance attributable to currently generated U.S. and Belgian net operating income (losses) until such time as the U.S. and Belgian operations, respectively, generate sufficient taxable income to utilize the net operating losses in full. For additional information, see Note 13 to the accompanying consolidated financial statements of the Annual Report on Form 10-K.

***Equity in Losses of and Write-down of an Investment in Affiliated Companies:*** Equity in losses of affiliated companies was $1.4 million in 2003 primarily reflecting losses reported by the Structures business segment's joint ventures in China and Malaysia as they continued to ramp up production of aerospace composite structures, partially offset by equity in earnings of Tech-Fab LLC, a Reinforcement business segment joint venture in the U.S.

Equity in losses of affiliated companies was $10.0 million in 2002 and included a $4.0 million write-down of an investment in the Company's Japanese electronic materials joint venture, ASCO. As a result of an agreement with the Company's joint venture partner to restructure its minority interest in ASCO, the Company wrote-down the carrying value of its remaining equity investment in ASCO to its estimated fair market value of $23.0 million. 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. The remaining $6.0 million of equity in losses was due to operating losses at ASCO and at the joint ventures in China and Malaysia.

During 2003, the Company exercised its option to sell its remaining interest in ASCO for $23.0 million in cash, and also sold its equity interest in its European reinforcement products joint

venture, Interglas, for a nominal amount in conjunction with a bank sponsored financial restructuring of the affiliated company. No gains or losses were recorded as a result of these transactions, as the Company had previously written-down the carrying value of its remaining equity investment in ASCO to its estimated fair market value of $23.0 million in 2002 and had recognized a full impairment of its remaining equity interest in Interglas in 2001.

***Deemed Preferred Dividends and Accretion:*** The Company recognized deemed preferred dividends and accretion of $9.6 million in 2003. Until such time as the mandatorily redeemable convertible preferred stock is converted to Hexcel common stock or redeemed, the accretion of certain deductions for accrued dividends, discount, beneficial conversion feature, and deferred issuance costs will be reported as a reduction of net income (loss) in arriving at net income (loss) available to common shareholders. Deemed preferred dividends and accretion is a non-cash expense at the time of recognition. There were no deemed preferred dividends and accretion in 2002. For additional information, see Note 10 to the accompanying consolidated financial statements of the Annual Report on Form 10-K.

***Net Loss Available to Common Shareholders and Net Loss Per Common Share:***

| (In millions, except per share data) | 2003 | 2002 |
|---|---|---|
| Net loss available to common shareholders | **$ (20.7)** | $ (13.6) |
| Diluted net loss per common share | **$ (0.54)** | $ (0.35) |
| Diluted weighted average shares outstanding | **38.6** | 38.4 |

The Company's convertible subordinated notes, due 2003, convertible subordinated debentures, due 2011, and all stock options were excluded from the 2003 and 2002 computations of diluted net loss per common share, as they were antidilutive. The convertible subordinated notes, due 2003, were repaid in full in March 2003. In addition, the Company's mandatorily redeemable convertible preferred stock issued on March 19, 2003 was excluded from the 2003 computation, as it was antidilutive. For additional information, see Note 14 to the accompanying consolidated financial statements of the Annual Report on Form 10-K.

**Business Consolidation and Restructuring Programs**

The aggregate business consolidation and restructuring liabilities as of September 30, 2004 and December 31, 2003, and activity for the quarter and nine months ended September 30, 2004, consisted of the following:

| (In millions) | Employee Severance | Facility & Equipment | Total |
|---|---|---|---|
| **Balance as of December 31, 2003** | $ 4.2 | $ 1.7 | $ 5.9 |
| Current period expenses | 0.5 | 1.0 | 1.5 |
| Change in estimated expenses | | (0.1) | (0.1) |
| Net business consolidation and restructuring expenses | 0.5 | 0.9 | 1.4 |
| Cash expenditures | (1.3) | (1.5) | (2.8) |
| Currency translation adjustments | (0.1) | | (0.1) |
| **Balance as of June 30, 2004** | $ 3.3 | $ 1.1 | $ 4.4 |
| Current period expenses | **0.2** | **0.5** | **0.7** |
| Change in estimated expenses | **(0.1)** | | **(0.1)** |
| Net business consolidation and restructuring expenses | **0.1** | **0.5** | **0.6** |
| Cash expenditures | **(0.4)** | **(0.6)** | **(1.0)** |
| Currency translation adjustments | **0.2** | | **0.2** |
| **Balance as of September 30, 2004** | **$ 3.2** | **$ 1.0** | **$ 4.2** |

*Livermore Program*

In the first quarter of 2004, the Company announced its intent to consolidate the activities of its Livermore, California facility into other operations, principally the Salt Lake City, Utah plant. This business consolidation and restructuring action is accounted for under Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which 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. In addition, if terminated employees are required to render services beyond a minimum retention period in order to receive termination benefits, a liability for the termination benefits shall be measured initially at the communication date based on fair value and recognized ratably over the service period. For the quarter and nine months ended September 30, 2004, the Company recognized $0.2 million and $0.6 million of expense, respectively, for employee severance based on the remaining employee service periods. Costs associated with the facility's closure, along with costs for relocation and re-qualification of equipment, are expected to occur over several years.

*November 2001 Program*

In November 2001, the Company announced a program to restructure its business operations as a result of its revised business outlook for build rate reductions in commercial aircraft production and due to depressed business conditions in the electronics market. For the quarter and nine months ended September 30, 2004, the Company recognized business consolidation and restructuring expenses of $0.4 million and $1.4 million, respectively, related to this program for equipment relocation and re-qualification costs that are expensed as incurred. In addition, the Company decreased its accrued liabilities by $0.1 million in the third quarter of 2004 and $0.2 million in the nine months ended September 30, 2004, due to changes in estimates. Cash expenditures for this program were $1.0 million and $3.8 million during the quarter and nine months ended September 30, 2004, respectively, leaving an accrued liability balance of $3.6 million as of September 30, 2004.

**Financial Condition**

***Liquidity:*** As of September 30, 2004, the Company had cash and cash equivalents of $51.5 million and undrawn availability under its senior secured credit facility of $73.6 million. Undrawn availability is the net of a borrowing base as of September 30, 2004 of $96.4 million less advances under the facility and outstanding letters of credit.

Under the senior secured credit facility, Hexcel is able to issue letters of credit up to a sublimit of $50.0 million subject to availability. At September 30, 2004, Hexcel had issued letters of credit totaling $23.2 million, of which $11.1 million supported a loan to the Company's BHA Aero Composite Parts Co., Ltd. joint venture in China. In addition, the Company has standby letters of credit of $1.8 million outstanding at September 30, 2004, which were separate from the facility. As of September 30, 2004, the Company was in compliance with the financial covenants under the senior secured credit facility.

In addition, Hexcel has 20.0 million Euros of borrowing capacity available under an accounts receivable factoring facility at its French operating subsidiaries, and various European credit and overdraft facilities, which could be utilized to meet short-term working capital and operating cash requirements. As of September 30, 2004, the Company did not have any outstanding accounts receivable factored under this facility. The European credit and overdraft facilities are uncommitted lines and can be terminated at the option of the lender.

As of September 30, 2004, the Company's total debt, net of cash was $405.9 million. This was a decrease of $35.8 million from $441.7 million as of December 31, 2003, reflecting the Company's positive cash flow from operating activities, cash of $6.5 million received from the sale of surplus land, and cash of $1.5 million received in dividends from an affiliated company. During the first nine months of 2004, the Company used some of its excess cash on hand to repurchase $21.8 million principal amount of its 9.75% senior subordinated notes, due 2009.

***Operating Activities:*** Net cash provided by operating activities was $45.5 million in the first nine months of 2004, as compared to net cash provided by operating activities of $27.2 million in the first nine months of 2003. The year-on-year increase in net cash provided by operating activities was primarily due to an improvement in net income and lower business consolidation and restructuring payments, partially offset by higher working capital requirements compared to the first nine months of 2003.

***Investing Activities:*** Net cash used for investing activities was $12.3 million in the first nine months of 2004, compared with net cash provided by investing activities of $17.2 million in same period last year. During the first nine months of 2003, the Company received $23.0 million from the sale of an ownership interest in an affiliated company. Capital expenditures were $20.3 million for the first nine months of 2004, compared to $12.5 million in the same period last year. These expenditures were partially offset by proceeds of $6.5 million from the sale of surplus land in first nine months of 2004 and $5.7 million from the sale of certain assets of the Company's Structures business segment in the first nine months of 2003. In addition, the Company received dividends from an affiliated company of $1.5 million and $1.0 million for the nine months ended September 30, 2004 and 2003, respectively.

***Financing Activities:*** Net cash used for financing activities was $23.7 million in the first nine months of 2004 compared to $23.2 million used for financing activities in the first nine months of 2003. During the first nine months of 2004, the Company utilized excess cash to pay down outstanding borrowings under the senior secured credit facility, repay other long-term debt and capital lease obligations, and to repurchase, at a premium, $21.8 million principal amount of its 9.75% senior subordinated notes, due 2009.

During the first nine months of 2003, the Company completed the refinancing of its capital structure through the simultaneous closings of three financing transactions: (i) the sale of mandatorily redeemable convertible preferred stock for $125.0 million in cash, (ii) the issuance of $125.0 million aggregate principal amount of 9.875% senior secured notes due 2008, in which the Company received $123.7 million in cash after discount, and (iii) the establishment of a new $115.0 million senior secured credit facility. The proceeds from the sale of convertible preferred securities were used to redeem $46.9 million of 7% convertible subordinated notes due 2003 and to reduce senior debt outstanding under the Company's then existing senior credit facility. The Company repaid the remaining advances under the then existing facility, after the application of a portion of the equity proceeds, with the proceeds from the issuance of the Company's new 9.875% senior secured notes and $12.0 million net borrowings on a new senior secured credit facility. In connection with the refinancing, the Company paid $14.1 million of issuance costs. Subsequent to these transactions, the Company repaid $4.9 million of borrowings under the senior secured credit facility and $38.5 million other long-term debt and capital lease obligations during the first nine months of 2003.

***Financial Obligations and Commitments:*** As of September 30, 2004, current maturities of notes payable and capital lease obligations were $3.8 million with no substantial debt repayments due until 2008. Short-term debt obligations include $1.7 million of drawings under European credit and overdraft facilities, $0.3 million due under capital lease obligations, and the $1.8 million sinking fund requirement under the 7% convertible subordinated debentures. The European credit and overdraft facilities provided to certain of the Company's European subsidiaries by lenders outside of the Senior Secured Credit Facility are primarily uncommitted facilities that are terminable at the discretion of the lenders. The Company has 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.

There were no borrowings under the Senior Secured Credit Facility as of September 30, 2004. Letters of credit totaling $23.2 million were issued under the facility. As of September 30, 2004, the borrowing base under the credit facility was $96.4 million, providing the Company with undrawn revolver and overdraft revolver availability of $73.6 million, after deduction of advances, letters of credit outstanding and other adjustments. Hexcel is able to issue letters of credit up to a sub-limit of $50.0 million, subject to availability, under this credit facility. Borrowings under the Senior Secured Credit Facility mature on March 31, 2008.

The 7% convertible subordinated debentures, due 2011, require annual mandatory redemptions of $1.8 million through a sinking fund, with the principal balance due at maturity. The Company satisfied the 2004 annual sinking fund requirement in 2003. The next sinking fund payment is required prior to August 1, 2005. On October 1, 2004 the Company purchased $1.8 million principal amount of the 7% convertible subordinated debentures due 2011 to satisfy the August 1, 2005 requirement. There was no material gain or loss on the repurchase. The outstanding principal of $125.0 million under the 9.875% senior secured notes and the outstanding principal of $308.2 million under the 9.75% senior subordinated notes mature on October 1, 2008 and January 15, 2009, respectively.

Total letters of credit issued and outstanding were $25.0 million as of September 30, 2004, of which $11.1 million was issued in support of a loan to the Company's BHA Aero Composite Parts Co., Ltd. joint venture in China ("BHA Aero"). Approximately $23.2 million of these letters of credit were issued under the Senior Secured Credit Facility, with the remaining $1.8 million issued separately from this credit facility. While the letters of credit issued on behalf of the Company will expire under their terms in 2004 and 2005, all of these will likely be re-issued except as modified by the BHA Aero refinancing discussed below.

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, which are mandatorily redeemable on January 22, 2010 generally for cash or for common stock at the Company's discretion, unless the holder elects to take a lesser amount in cash, and under certain circumstances must be redeemed for cash. Commencing on March 19, 2006, holders of the series A convertible preferred stock will be entitled to receive dividends at an annual rate of 6% of the "accrued value." Accrued value is calculated as an amount equal to the sum of $1,195.618 per share and the aggregate of all accrued but unpaid dividends. Dividends are payable quarterly and may be paid in cash or added to the accrued value of the preferred stock, at the Company's option. The series B preferred stock does not accrue dividends.

The Company and two other equity owners of BHA Aero have an obligation to support a third party loan on a proportionate basis to their equity ownership interests. The Company has met its obligation through an outstanding letter of credit of $11.1 million. BHA Aero's third party loans come due in 2004. During 2004, BHA Aero and its equity owners have been in detailed discussions as to the refinancing of its loans and a re-capitalization of this joint venture. The maturities of the existing third party loans have been extended to facilitate these discussions. Hexcel and Boeing International Holdings, Ltd. have each agreed to purchase for $7.5 million in cash newly issued registered capital of BHA Aero resulting in an increase in each of their respective equity ownership interests to 40.48%. This investment is contingent on receiving the required government approvals. Following such approval, and the cash equity investment, BHA Aero will refinance its outstanding bank loans with a new five year bank term loan. As part of this refinancing, Hexcel will enter into guarantee arrangements with Boeing International Holdings, Ltd. and China Aviation Industry Corporation I with a value not to exceed $6.1 million. Upon completion of BHA Aero's bank refinancing, Hexcel's standby letter of credit of $11.1 million will be cancelled and will not be replaced. Depending on the timing of receiving necessary government approvals, the recapitalization and refinancing are anticipated to be completed either in the fourth quarter of 2004 or the first quarter of 2005.

The following table summarizes the maturities of financial obligations and expiration dates of commitments as of September 30, 2004, for the remaining three months of 2004, for the years ended 2005 through 2008, and thereafter:

| **(In millions)** | **Remaining Three Months of 2004** | **2005** | **2006** | **2007** | **2008** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| Senior Secured Credit Facility | $ | $ | $ | $ | $ | $ | **$** |
| European credit and overdraft Facilities | 1.7 | | | | | | **1.7** |
| 9.875% Senior secured notes(a) | | | | | 125.0 | | **125.0** |
| 9.75% Senior subordinated notes(b) | | | | | | 308.2 | **308.2** |
| 7.0% Convertible subordinated debentures | | 1.8 | 1.8 | 1.8 | 1.8 | 13.8 | **21.0** |
| Capital leases | 0.1 | 0.3 | 0.3 | 0.3 | 0.4 | 2.5 | **3.9** |
| **Subtotal** | 1.8 | 2.1 | 2.1 | 2.1 | 127.2 | 324.5 | **459.8** |
| Operating leases | 1.2 | 4.2 | 3.5 | 2.3 | 1.8 | 9.3 | **22.3** |
| **Total financial obligations** | $ 3.0 | $ 6.3 | $ 5.6 | $ 4.4 | $ 129.0 | $ 333.8 | **$ 482.1** |
| Letters of credit | $ 19.1 | $ 5.9 | $ | $ | $ | $ | **$ 25.0** |
| Interest payments | 6.5 | 45.9 | 45.8 | 45.7 | 37.5 | 17.2 | **198.6** |
| Benefit plan contributions | 1.6 | | | | | | **1.6** |
| **Total commitments** | $ 27.2 | $ 51.8 | $ 45.8 | $ 45.7 | $ 37.5 | $ 17.2 | **$ 225.2** |

(a) At September 30, 2004, the unamortized discount on the $125.0 million of 9.875% senior secured notes issued March 19, 2003 was $0.9 million.

(b) At September 30, 2004, the unamortized discount on the additional $100.0 million of 9.75% senior subordinated notes, issued June 29, 2001, was $0.7 million. In addition, the recorded value of the notes was reduced by the fair value basis adjustment of $0.8 million attributable to certain interest rate swap agreements.

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 sufficient future borrowings will be available under its Senior Secured Credit Facility, to enable the Company to service its indebtedness, including its public notes, or to fund its other liquidity needs.

As liquidity permits, the Company may from time to time seek to retire its outstanding public debt through open market purchases, privately negotiated transactions or otherwise. Whether the Company makes any such repurchases, and the terms of any such repurchases, will depend on prevailing market conditions, the Company's liquidity position, contractual restrictions and other factors.

For further information regarding the Company's financial resources, obligations and commitments, see Notes 5 and 6 to the accompanying condensed consolidated financial statements and Notes 2, 8, 9, 10 and 17 to the consolidated financial statements of the 2003 Annual Report on Form 10-K.

**Critical Accounting Policies**

For information regarding the Company's critical accounting policies, refer to the Company's 2003 Annual Report on Form 10-K.

**Recently Issued Accounting Policies**

In May 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FAS 106-2"), which provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act (the "Act") to employers that sponsor postretirement health care plans that provide prescription drug benefits. In its guidance as provided by FAS 106-2, the FASB concluded that the favorable impact of the Act on the accumulated benefit obligation and net periodic postretirement benefit cost on or after the date of enactment should be reflected in a company's financial statements. However, until such time an enterprise is able to determine whether the benefits provided by its plan are actuarially equivalent, FAS 106-2 requires that the enterprise disclose:

(a) The existence of the Act; and

(b) The fact that measures of the accumulated benefit obligation or net periodic postretirement benefit cost as recorded in its financial statements do not reflect any amount associated with the Act because the employer has yet to make such a determination.

In addition, FAS 106-2 requires that in the first period in which an enterprise includes the effect of the Act in measuring its accumulated benefit obligation and net periodic postretirement benefit cost, it shall disclose:

(a) The impact of the Act on the accumulated benefit obligation related to benefits attributed to past services;

(b) The effect of the Act on the measurement of net periodic postretirement benefit costs for the current period; and

(c) Any other disclosures required by FASB Statement No. 132 (revised) that requires "an explanation of any significant change in the accumulated benefit obligation or plan assets not otherwise apparent in the other disclosures required by this statement."

The Company has reviewed the impact of FAS 106-2 on its postretirement benefit plans and has concluded that the enactment of the Act was not a significant event for its plans. As such, the effects of the Act will be incorporated in the valuation to be performed at the Company's next plan valuation date, December 31, 2004.

In September 2004, the Emerging Issues Task Force issued EITF Issue 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-8"). EITF 04-8 provides guidance on the number of shares to be included in diluted earnings per share computations as related to convertible debt and preferred stock issuances. The new guidance may, in certain instances, increase the number of shares outstanding in diluted earnings per share computations, thereby lowering reported earnings per share. The provisions of EITF 04-8 are effective for December 31, 2004 year-end reporting. Consistent with previous changes to earnings per share guidance, the changes described in EITF 04-8 shall be applied retrospectively in all prior periods presented. The Company is currently evaluating the guidance provided in EITF 04-8. Based upon a preliminary analysis, the Company believes that EITF 04-8 will not have a significant impact on the Company's earnings per share computations.

## BUSINESS

### General

Hexcel is a leading producer of advanced structural materials. We develop, manufacture and market lightweight, high-performance reinforcement products, composite materials and composite structures for use in the commercial aerospace, industrial, space and defense, and electronics markets. Our products are used in a wide variety of end products, such as commercial and military aircraft, space launch vehicles and satellites, printed wiring boards for computers and cellular telephones, body armor, high-speed trains and ferries, cars and trucks, wind turbine blades, window blinds, bikes, skis and a wide variety of recreational equipment.

We serve international markets through manufacturing facilities and sales offices located in the United States and Europe, and through sales offices located in the Peoples Republic of China and Australia. We are also an investor in four joint ventures, one of which manufactures and markets reinforcement products in the United States, one of which manufactures and markets composite materials in Japan and two of which manufacture composite structures and interiors in Asia.

We are incorporated under the laws of the State of Delaware. Our principal executive offices are located at Two Stamford Plaza, 281 Tresser Boulevard, Stamford, Connecticut 06901. Our general telephone number is 203-969-0666. The address of our website is www.hexcel.com. The information on our website is not part of this prospectus.

### 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: Composites, Reinforcements and Structures.

#### *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, gel coats and laminates.

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 | Raw materials for industrial fabrics and prepregs<br>Filament winding for various space, defense and industrial applications |
| | Prepregs and Other Fiber-Reinforced Matrix Materials | Composite structures<br>Commercial and military aircraft components<br>Satellites and launchers<br>Aeroengines<br>Wind turbine rotor blades<br>Yachts, trains and motor racing vehicles<br>Skis, snowboards, hockey sticks, tennis rackets and bicycles |
| | Structural Adhesives | Bonding of metals, honeycomb and composite materials<br>Aerospace, ground transportation and industrial applications |
| | Honeycomb, Honeycomb Parts & Composite Panels | Composite structures and interiors<br>Semi-finished components used in:<br>Helicopter blades<br>Aircraft surfaces (flaps, wing tips, elevators and fairings)<br>High-speed ferries, truck and train components<br>Automotive components and impact protection |

*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 prepregs and used in filament winding and advanced fiber placement to produce various other composite materials. Key product applications include structural components for commercial and military aircraft, space launch vehicles, wind blade components and certain other applications such as recreational equipment.

*Prepregs:* HexPly® 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.

*Other Fiber-Reinforced Matrix Materials:* New fiber reinforced matrix developments include HexMC®, a carbon fiber/epoxy sheet moulding compound that enables small to medium sized composite components to be mass produced. Hexcel's HexFIT® 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® film and paste adhesives. These structural adhesives, which bond metal to metal, composites and honeycomb structures, are used in the aerospace industry and for many industrial applications.

*Honeycomb, Honeycomb Parts and Composite Panels:* HexWeb® honeycomb is a unique, lightweight, cellular structure generally composed of nested hexagonal cells. The product is similar in appearance to a cross-sectional slice of a beehive. It can also be manufactured in

asymmetric

cell configurations for more specialized applications. 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 automotive parts, high-speed trains and mass transit vehicles, energy absorption products, marine vessel compartments, portable shelters and other industrial uses. In addition, the Company produces honeycomb for its Structures business segment for use in manufacturing finished parts for airframe OEMs.

***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 | Structural materials/components used in aerospace, wind energy, automotive, marine, recreation and other industrial applications<br>Raw materials for prepregs and honeycomb<br>Soft body armor and other security applications<br>Electronic applications, primarily printed wiring board substrates<br>Window screens and blinds<br>Civil engineering and construction applications |

*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 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.

***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, 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 components, including:<br>Flap track fairings<br>Wing panels<br>Flight deck panels<br>Door liners |

**Significant Customers**

Approximately 23%, 24% and 27% of Hexcel's 2003, 2002 and 2001 net sales, respectively, were to Boeing and related subcontractors. Of the 23% of sales to Boeing and its subcontractors in 2003, 17% and 6% related to commercial aerospace and space and defense market applications, respectively. Approximately 19%, 16% and 16% of Hexcel's 2003, 2002 and 2001 net sales, respectively, were to EADS, including the business division Airbus, and its subcontractors. Of the 19% of sales to EADS and its subcontractors in 2003, 16% and 3% related to commercial aerospace and space and defense market applications, respectively.

## SELLING STOCKHOLDERS

The following table sets forth the name of each selling stockholder, the number of shares and percentage of our common stock and each class of preferred stock beneficially owned by each selling stockholder as of November 22, 2004, the number of shares of common stock being sold in this offering and the number of shares and percentage of our common stock and each class of preferred stock to be beneficially owned by each selling stockholder after the completion of this offering, in each case assuming the underwriters do not exercise their over-allotment option. The table also includes this information for each of the Goldman Sachs investors in the aggregate and the Berkshire/Greenbriar investors in the aggregate. Each share of our series A preferred stock is convertible, at the option of the holder, into a number of shares of our common stock equal to $1,000 (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series A preferred stock) divided by a conversion price initially set at $3.00 per share, subject to anti-dilution adjustments. Each share of our series B preferred stock is convertible, at the option of the holder, into a number of shares of our common stock equal to $195.618 (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series B preferred stock) divided by a conversion price initially set at $3.00 per share, subject to antidilution adjustments. The shares available to the underwriters in connection with their over-allotment option will be sold only by the Berkshire/Greenbriar investors on a pro rata basis, calculated with reference to each Berkshire/Greenbriar entity's holdings as a percentage of the Berkshire/Greenbriar investor group's holdings as a whole.

| | **Shares Beneficially Owned Prior to Offering(1)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Common Stock** | | **Series A** | | **Series B** | | | |
| **Name** | **Number(2)** | **Percent of Class(2)** | **Number** | **Percent of Class** | **Number** | **Percent of Class** | **Number of Shares Offered(3)** | **Percent of Total Voting Power(1)(2)(4)** |
| **The Goldman Sachs investors(4)(5)** | 33,345,890 | 56.3% | 47,125 | 37.7% | 47,125 | 37.7% | 11,100,086 | 37.0% |
| LXH, L.L.C.(5) | 8,272,312 | 20.5% | | | | | 6,321,747 | 9.2% |
| LXH II, L.L.C.(5) | 6,252,688 | 15.5% | | | | | 4,778,339 | 6.9% |
| **The Berkshire/Greenbriar investors(6)** | 31,053,307(7) | 43.5% | 77,875 | 62.3% | 77,875 | 62.3% | 9,899,914 | 34.4% |
| *Berkshire selling stockholders:*(8) | | | | | | | | |
| Berkshire Fund V, Limited Partnership | 7,053,687 | 14.9% | 17,698.85 | 14.2% | 17,698.85 | 14.2% | 2,250,071 | 7.8% |
| Berkshire Fund VI, Limited Partnership | 7,661,281 | 15.9% | 19,223.40 | 15.4% | 19,223.40 | 15.4% | 2,443,814 | 8.5% |
| Berkshire Investors LLC | 803,156 | 2.0% | 2,015.25 | 1.6% | 2,015.25 | 1.6% | 256,072 | * |
| *Greenbriar selling stockholders:*(9) | | | | | | | | |
| Greenbriar Equity Fund, L.P. | 15,214,939 | 27.4% | 38,176.76 | 30.5% | 38,176.76 | 30.5% | 4,853,353 | 16.9% |
| Greenbriar Co-Investment Partners, L.P. | 303,184 | * | 760.74 | * | 760.74 | * | 96,604 | * |

| | Shares Beneficially Owned After This Offering(1) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | Series A | | Series B | | |
| **Name** | **Number(2)** | **Percent of Class(2)** | **Number** | **Percent of Class** | **Number** | **Percent of Class** | **Percent of Total Voting Power(1)(2)(4)** |
| **The Goldman Sachs investors(4)** | 22,245,804 | 32.2% | 47,125 | 42.6% | 47,125 | 100% | 24.7% |
| LXH, L.L.C.(5) | 1,950,565 | 3.9% | | | | | 2.2% |
| LXH II, L.L.C.(5) | 1,474,349 | 2.9% | | | | | 1.6% |
| **The Berkshire/Greenbriar investors(6)** | 21,153,391(5) | 29.6% | 63,409.00 | 57.4% | | | 23.4% |
| *Berkshire selling stockholders(8):* | | | | | | | |
| Berkshire Fund V, Limited Partnership | 4,803,616 | 8.7% | 14,410.85 | 13.0% | | | 5.3% |
| Berkshire Fund VI, Limited Partnership | 5,217,466 | 9.4% | 15,652.40 | 14.2% | | | 5.8% |
| Berkshire Investors LLC | 547,083 | 1.1% | 1,641.25 | 1.5% | | | * |
| *Greenbriar selling stockholders(9):* | | | | | | | |
| Greenbriar Equity Fund, L.P. | 10,361,586 | 17.1% | 31,084.76 | 28.1% | | | 11.5% |
| Greenbriar Co-Investment Partners, L.P. | 206,580 | * | 619.74 | * | | | * |

(1) "Beneficial ownership" is a term broadly defined by the Securities and Exchange Commission in Rule 13d-3 under the Exchange Act, and includes more than the typical form of stock ownership, that is, stock held in the person's name. The term also includes what is referred to as "indirect ownership," meaning ownership of shares as to which a person has or shares investment power. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares as of a given date that such person has the right to acquire as of such date or within 60 days after such date. An asterisk indicates ownership of less than 1%.

(2) The common stock numbers and percentages relating to the Berkshire/Greenbriar investors and the Goldman Sachs investors (other than LXH, L.L.C. and LXH II, L.L.C.) include the shares of series A preferred stock and series B preferred stock held by each such stockholder, as if such shares were converted into shares of common stock. As required by SEC rules, for each person listed in the chart the percentages are calculated assuming that all convertible securities beneficially held by such person are converted into common stock to the extent possible and that no other convertible securities are converted into common stock; provided that Berkshire Partners LLC, the Berkshire selling stockholders, Greenbriar Equity Group LLC and the Greenbriar selling stockholders are considered a single person for purposes of the percentages presented for entities affiliated with Berkshire Partners LLC and Greenbriar Equity Group LLC. Securities convertible into common stock include the preferred stock and stock-based awards granted under Hexcel stock incentive plans (such as options and restricted stock units).

(3) These figures assume that underwriters do not exercise their over-allotment option, which, if exercised, would use only shares provided by the Berkshire/Greenbriar investors. Berkshire Fund V has agreed to sell up to 716,000 additional shares (reducing its beneficial ownership of common stock to 4,087,616 shares and series A preferred stock to 12,262.85 shares); Berkshire Fund VI has agreed to sell up to 777,666 additional shares (reducing its beneficial ownership of common stock to 4,439,800 shares and series A preferred stock to 13,319.40 shares); Berkshire Investors LLC has agreed to sell up to 81,333 additional shares (reducing its beneficial ownership of common stock to 465,750 shares and series A preferred stock to 1,397.25 shares); Greenbriar Equity Fund, L.P. has agreed to sell up to 1,544,333 shares (reducing beneficial ownership of common stock to 8,817,253 shares and series A preferred stock to 26,451.76 shares); Greenbriar Co-Investment Partners, L.P. has agreed to sell up to 30,666 additional shares (reducing its beneficial ownership of common stock to 175,913 shares and series A preferred stock to 527.74 shares); in each case to cover over-allotments. If the underwriters' over-allotment option is exercised in full, entities affiliated with Berkshire Partners LLC or Greenbriar Equity Group LLC will beneficially own in the aggregate 18,003,392 shares of common stock (including the shares described in footnote (6)) and 53,959 shares of series A preferred stock following this offering.

(4) Total voting power represents the total voting power represented by all common stock and all preferred stock beneficially owned.

(5) LXH, L.L.C. and LXH II, L.L.C. are the only Goldman Sachs investors that are selling stockholders in this offering. The business address for each of LXH, L.L.C. and LXH II, L.L.C. is c/o GS Capital Partners 2000, L.P., 85 Broad Street, New York, New York 10004. GS Capital Partners 2000, L.P. ("GS 2000") wholly owns, and is the managing member of, LXH, L.L.C. LXH II, L.L.C. is wholly owned by GS Capital Partners 2000 Offshore, L.P. ("GS Offshore"), its managing member, GS Capital Partners 2000 Employee Fund, L.P. ("GS Employee"), GS Capital Partners 2000 GmbH & Co.

Beteiligungs

KG ("GS Germany") and Stone Street Fund 2000, L.P. (together with GS 2000, GS Offshore, GS Employee and GS Germany, the "GS Limited Partnerships"). Affiliates of Goldman, Sachs & Co. and The Goldman Sachs Group, Inc. are the general partner, managing partner or managing general partner of each of the GS Limited Partnerships, and Goldman, Sachs & Co. is the investment manager of each of the GS Limited Partnerships. LXH, L.L.C. and LXH II, L.L.C., together with the other Goldman Sachs investors, beneficially own an aggregate of 33,345,890 shares of common stock of Hexcel, or 37.0% of the total voting power of Hexcel as of November 22, 2004, consisting of 14,525,000 shares of common stock of Hexcel, 18,781,162 shares of common stock of Hexcel issuable upon the conversion of the shares of series A and series B preferred stock beneficially owned by the Goldman Sachs investors, and 39,728 shares of common stock issuable upon the exercise of currently exercisable options beneficially owned by The Goldman Sachs Group, Inc. Each of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the shares beneficially owned by the GS Limited Partnerships except to the extent of their pecuniary interests therein. Pursuant to the Amended and Restated Governance Agreement, dated March 19, 2003 (the "governance agreement"), among LXH, L.L.C., LXH II, L.L.C., the GS Limited Partnerships and the Company, we have agreed with the Goldman Sachs investors that any slate of nominees for the Company's Board of Directors will consist of up to three nominees designated by the Goldman Sachs investors. Messrs. Sanjeev K. Mehra, James J. Gaffney and Peter M. Sacerdote are the designees of the Goldman Sachs investors which currently serve on our Board of Directors. See "Certain Relationships and Related Transactions" for a more detailed description of the provisions of the governance agreement.

(6)

"Berkshire/Greenbriar investors" as used here includes Berkshire Partners LLC and Greenbriar Equity Group LLC. Based on the relationships among the Berkshire and Greenbriar entities described in "Certain Relationships and Related Transactions" and certain coinvestment arrangements among them, the Berkshire/Greenbriar investors (including Berkshire Partners LLC and Greenbriar Equity Group LLC for this purpose) may be deemed to constitute a "group" for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934. This statement shall not be construed as an admission that these entities are a group, or have agreed to act as a group, and each entity disclaims beneficial ownership of the shares listed in the table except to the extent of its respective pecuniary interest therein, if any.

(7)

Shares beneficially owned include, in addition to the shares of common stock issuable upon conversion of the preferred stock held by the Berkshire and Greenbriar selling stockholders listed below, (i) 8,000 shares subject to exercisable options and 530 shares issuable upon conversion of an equal number of vested restricted stock units, in each case awarded to Mr. Small, a Managing Director of Berkshire Partners LLC who currently serves on our Board of Directors, and (ii) 8,000 shares subject to exercisable options and 530 shares issuable upon conversion of an equal number of vested restricted stock units, in each case awarded to Mr. Beckman, a Managing Partner of Greenbriar Equity Group LLC who currently serves on our Board of Directors.

(8)

The business address for these selling stockholders is c/o Berkshire Partners LLC, One Boston Place, Suite 3300, Boston, Massachusetts 02108. Fifth Berkshire Associates LLC ("Fifth Berkshire") is the General Partner of Berkshire Fund V, Limited Partnership ("Berkshire Fund V") and has voting and investment power for Berkshire Fund V. Sixth Berkshire Associates LLC ("Sixth Berkshire") is the General Partner of Berkshire Fund VI, Limited Partnership ("Berkshire Fund VI") and has voting and investment power for Berkshire Fund VI. Fifth Berkshire, Sixth Berkshire, Berkshire Investors LLC and Berkshire Partners LLC have the same managing members, one of whom is Mr. Small.

(9)

The business address for these selling stockholders is c/o Greenbriar Equity Group LLC, 555 Theodore Fremd Avenue, Suite A-201, Rye, New York 10580. Greenbriar Holdings LLC ("Greenbriar Holdings") is the general partner of Greenbriar Equity Capital, L.P., which is the general partner of Greenbriar Equity Fund, L.P. Greenbriar Holdings is also the general partner of Greenbriar Co-Investment Partners, L.P. Greenbriar Holdings LLC and Greenbriar Equity Group LLC have the same managing members, one of whom is Mr. Beckman.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**General**

On March 19, 2003, we issued 77,875 shares of our series A preferred stock and 77,875 shares of our series B preferred stock to the Berkshire/Greenbriar investors for $77,875,000 in cash. As part of the preferred stock sale we also issued 47,125 shares of series A preferred stock and 47,125 shares of series B preferred stock to the Goldman Sachs investors for $47,125,000 in cash. These purchases were made under the terms of separate stock purchase agreements we entered into with each of the Goldman Sachs investors and the Berkshire/Greenbriar investors on December 18, 2002. Each of the Goldman Sachs investors and the Berkshire/Greenbriar investors obtained the funds for the purchase of the preferred stock through capital contributions by their investors.

Upon the consummation of the preferred stock sale, we entered into an amended and restated governance agreement and an amended and restated registration rights agreement with the Goldman Sachs investors and a stockholders agreement and a registration rights agreements with the Berkshire/Greenbriar investors. Each of these agreements, and each of the stock purchase agreements, is summarized below.

On December 19, 2000, LXH, L.L.C. and LXH II, L.L.C., two limited liability companies that are Goldman Sachs investors, acquired 14,525,000 shares of Hexcel common stock from Ciba Specialty Chemicals Holding Inc. ("Ciba") for an aggregate purchase price of $159,775,000. We refer to these two limited liability companies as the "LXH purchasers." The purchase price was comprised of $123,462,500 in cash and two 7.5% secured promissory notes due December 31, 2004 (the "Notes") issued by the LXH purchasers on December 19, 2000 to Ciba for an aggregate principal amount of $36,312,500. In connection with the issuance of the Notes, the LXH purchasers entered into two pledge agreements with Ciba (the "Pledge Agreements"). Under the Pledge Agreements, the LXH purchasers granted to Ciba a security interest in all shares of our common stock held by the LXH purchasers to secure the payment of the Notes. Prior to the delivery by the LXH purchasers to the underwriters of the shares of common stock to be sold by the LXH purchasers in this offering, the LXH purchasers intend to prepay in full the aggregate amount of principal and interest accrued on the Notes through the date of prepayment and the Pledge Agreements will be terminated in connection therewith. At the time of the purchase by the LXH purchasers of common stock from Ciba, we entered into a governance agreement and registration rights agreement with the Goldman Sachs investors, each of which was amended and restated upon the closing of the preferred stock sale. In addition, we entered into an agreement dated October 11, 2000 in which we made representations and warranties to the LXH purchasers and provided the LXH purchasers with indemnification, subject to limitations, for losses suffered as a result of breaches by us of the representations and warranties.

**Relationship with the Goldman Sachs investors and the Berkshire/Greenbriar investors**

***Stock Purchase Agreements***

On December 18, 2002, we entered into separate stock purchase agreements with each of the Berkshire/Greenbriar investors and certain of the Goldman Sachs investors in which all parties agreed to consummate the preferred stock sale. The stock purchase agreements contained similar, but not identical, terms including customary representations and warranties, covenants, closing conditions, "no-shop" and termination provisions, and provided for the payment by us of certain fees to, and expenses of, the Goldman Sachs investors and the Berkshire/Greenbriar investors. The stock purchase agreement with the Goldman Sachs investors also required the Goldman Sachs investors to vote their common stock in favor of the preferred stock sale and related matters, subject to conditions.

Under the stock purchase agreements, we agreed to indemnify the Berkshire/Greenbriar investors and the Goldman Sachs investors for any losses they incur arising from a breach of any representations, warranties or covenants made by us, or from any actual or threatened litigation against them in connection with the preferred stock sale. The Berkshire/Greenbriar investors and the Goldman Sachs investors agreed to indemnify us for any losses we incur arising from a breach of any of their respective representations, warranties or covenants.

With respect to any indemnification claims made by any party for breaches of representations and warranties, the party providing indemnification is responsible only for amounts in excess of $2 million. The maximum amount payable by a party providing indemnification is $20 million in the case of the Berkshire/Greenbriar stock purchase agreement, and $10 million in the case of the Goldman Sachs stock purchase agreement. However, the maximum amount payable by us for losses incurred due to our breach of the representations and warranties relating to our SEC filings is equal to the purchase price provided for in the relevant stock purchase agreement.

***Governance Agreement and Stockholders Agreement***

*Corporate Governance.* On March 19, 2003, the board of directors was reconstituted in accordance with the terms of the governance agreement with the Goldman Sachs investors and the stockholders agreement with the Berkshire/Greenbriar investors. Each of the governance agreement and the stockholders agreement provides that the board of directors shall consist of ten directors. In particular, based on the total voting power currently held by the Goldman Sachs investors and the Berkshire/Greenbriar investors, the governance agreement and stockholders agreement, taken together, require that the board of directors be composed of:

- three directors designated by the Goldman Sachs investors;
- two directors designated by the Berkshire/Greenbriar investors; and
- five directors who are independent of the Goldman Sachs investors and the Berkshire/Greenbriar investors. We refer to these directors as "non-investor directors."

The governance agreement requires that, so long as the Goldman Sachs investors own 10% or more of the total voting power of Hexcel, any slate of nominees for election to the board of directors must include at least one but not more than three nominees of the Goldman Sachs investors. The stockholders agreement requires that, so long as the Berkshire/Greenbriar investors own 10% or more of the total voting power of Hexcel, any slate of nominees for election to the board of directors must include at least one but not more than two nominees of the Berkshire/Greenbriar investors. Under both the governance agreement and the stockholders agreement, the "total voting power" of a person means the portion of all votes that may be cast in the election of directors represented by the common stock and preferred stock held by such person, with the votes represented by the preferred stock equal to the number of shares of common stock into which the preferred stock could be converted. In addition, under the governance agreement and stockholders agreement, in determining the total voting power of a person for the above purpose only, we consider as held by that person and as outstanding all common stock that could be issued to that person upon the exercise or conversion of any securities, such as options, beneficially held by that person.

In particular, the Goldman Sachs investors are entitled to:

- three nominees if they own 20% or more of the total voting power of Hexcel and continue to hold capital stock representing more than two-thirds of the total voting power they held upon the closing of the preferred stock sale;

- two nominees if either they own 20% or more of the total voting power of Hexcel and hold capital stock representing two-thirds or less of the total voting power they held upon the closing of the preferred stock sale, or they own less than 20% but at least 15% of the total voting power of Hexcel and continue to hold capital stock representing more than one-third of the total voting power they held upon the closing of the preferred stock sale; and

- one nominee if either they own less than 20% but at least 15% of the total voting power of Hexcel and hold capital stock representing one-third or less of the total voting power they held upon the closing of the preferred stock sale, or they own less than 15% but at least 10% of the total voting power of Hexcel.

The Berkshire/Greenbriar investors are entitled to:

- two nominees if they own 15% or more of the total voting power of Hexcel and continue to hold capital stock representing more than one-third of the total voting power they held upon the closing of the preferred stock sale; and

- one nominee if either they own 15% or more of the total voting power of Hexcel and hold capital stock representing one-third or less of the total voting power they held upon the closing of the preferred stock sale, or they own less than 15% but at least 10% of the total voting power of Hexcel.

Under the governance agreement, each nominee other than the nominees of the Goldman Sachs investors must be a "non-Goldman Sachs investor nominee," which means the nominee:

- is not and has never been an officer, partner, employee or director of any of the Goldman Sachs investors,

- has no affiliation or compensation, consulting or contractual relationship with any of the Goldman Sachs investors that would cause a reasonable person to regard the person as likely to be unduly influenced by any such Goldman Sachs investor, and

- is designated by the directors not nominated to the board by the Goldman Sachs investors.

However, we have agreed with the Berkshire/Greenbriar investors that, so long as Joel S. Beckman is a director nominated by the Berkshire/Greenbriar investors, he qualifies as a "non-Goldman Sachs investor nominee," notwithstanding that Mr. Beckman was previously a managing director with Goldman Sachs. We have also agreed with the Berkshire/Greenbriar investors that, so long as Robert J. Small is a director nominated by the Berkshire/Greenbriar investors, he qualifies as a "non-Goldman Sachs investor nominee," notwithstanding that Mr. Small was previously employed by Goldman Sachs.

Under the stockholders agreement, each nominee other than the nominees of the Berkshire/Greenbriar investors must be a "non-Berkshire/Greenbriar nominee," which means the nominee:

- is not and has never been an officer, partner, employee or director of any of the Berkshire/Greenbriar investors,

- has no affiliation or compensation, consulting or contractual relationship with any of the Berkshire/Greenbriar investors that would cause a reasonable person to regard the person as likely to be unduly influenced by any such Berkshire/Greenbriar investor, and

- is designated by the directors not nominated by the Berkshire/Greenbriar investors.

Each non-investor director nominee must be designated by both:

- a majority vote of the group of directors other than the Goldman Sachs directors (currently seven directors), as specified in the governance agreement, and

- a majority vote of the group of directors other than the Berkshire/Greenbriar directors (currently eight directors), as specified in the stockholders agreement.

The Goldman Sachs investors are required to vote their shares of capital stock in favor of the nominees for director determined in accordance with the governance agreement. The Berkshire/Greenbriar investors are required to vote their shares of capital stock in favor of the nominees for director determined in accordance with the stockholders agreement.

The Goldman Sachs investors currently beneficially own approximately 37.0% of Hexcel's total voting power, and the Berkshire/Greenbriar investors currently beneficially own approximately 34.4% of Hexcel's total voting power. Accordingly, our Board of Directors is comprised of the following persons:

- Sanjeev K. Mehra, James J. Gaffney and Peter M. Sacerdote, each of whom is a nominee of the Goldman Sachs investors;

- Joel S. Beckman and Robert J. Small, each of whom is a nominee of the Berkshire/Greenbriar investors; and

- H. Arthur Bellows, Jr., David E. Berges (Chairman), Jeffrey C. Campbell, Sandra L. Derickson and Martin L. Solomon, each of whom is neither a nominee of the Goldman Sachs investors nor a nominee of the Berkshire/Greenbriar investors.

The governance agreement further provides that so long as the Goldman Sachs investors are entitled to designate two or more nominees for election to the board of directors, each committee of the board of directors shall consist of at least one director nominated by the Goldman Sachs investors. The stockholders agreement provides that so long as the Berkshire/Greenbriar investors are entitled to designate two or more nominees for election to the board of directors, each committee of the board of directors shall consist of at least one director nominated by the Berkshire/Greenbriar investors. However, if under the listing standards of the New York Stock Exchange or any other applicable law or rule, no Goldman Sachs investor nominee or Berkshire/Greenbriar nominee is eligible to serve on a particular committee, then that committee will consist solely of non-Goldman Sachs directors and/or non-Berkshire/Greenbriar directors, as the case may be. New directors chosen to fill vacancies on the board of directors are selected as follows:

- if the vacancy is created as a result of a nominee of the Goldman Sachs investors ceasing to serve as a member of the board of directors, then the Goldman Sachs investors shall designate the new director;

- if the vacancy is created as a result of a nominee of the Berkshire/Greenbriar investors to serve as a member of the board of directors, then the Berkshire/Greenbriar investors shall designate the new director; or

- if the new director is to be neither a Goldman Sachs director nor a Berkshire/Greenbriar director, then the new director will be designated by both a majority vote of the group of directors other than the Goldman Sachs directors (as required by the governance agreement) and a majority vote of the group of directors other than the Berkshire/Greenbriar directors (as required by the stockholders agreement).

If the percentage of total voting power held by the Goldman Sachs investors or the Berkshire/Greenbriar investors decreases, or the Goldman Sachs investors or the Berkshire/Greenbriar investors transfer some of the shares of capital stock held by them, in either case such that the

number of directors the Goldman Sachs investors or the Berkshire/Greenbriar investors is entitled to nominate would decrease, then the Goldman Sachs investors or the Berkshire/Greenbriar investors, as the case may be, must cause an appropriate number of directors nominated by the Goldman Sachs investors or the Berkshire/Greenbriar investors, as the case may be, to resign. Any vacancies created by these resignations would be filled by a majority vote of the non-Goldman Sachs directors or non-Berkshire/Greenbriar directors, as the case may be.

If all shares offered by this prospectus are sold by the selling stockholders, the total voting power of the Goldman Sachs investors will decrease to 24.7% and the total voting power of the Berkshire/Greenbriar investors will decrease to 23.4% (or 20.0% if the underwriters exercise their over-allotment option). Notwithstanding such decrease, the Goldman Sachs investors will continue to be entitled to designate three nominees for election to the board of directors, and the Berkshire/Greenbriar investors will continue to be entitled to designate two nominees for election to the board of directors.

*Approvals.* Pursuant to the Stockholders Agreement and the Governance Agreement, for so long as the Berkshire/Greenbriar investors or the Goldman Sachs investors beneficially own at least 15% of the total voting power of our voting securities, our board of directors may not approve any of the following actions without the approval of a majority of the directors nominated by the Berkshire/Greenbriar investors and/or a majority of the directors nominated by the Goldman Sachs investors, as the case may be:

- any merger or other business combination involving us, other than a "buyout transaction" (as defined below under "Buyout Transactions"), if the value of the transaction, when added together with the value of all similar transactions during the previous 12 months, exceeds the greater of $75 million and 11% of our total assets;

- any sale, transfer, conveyance, lease or other disposition or series of related dispositions of any of our assets, businesses or operations, other than a buyout transaction, if the value of the assets, business or operations disposed of in this manner during the prior 12 months exceeds the greater of $75 million and 11% of our total consolidated assets; or

- any issuance by us or any of our significant subsidiaries of equity securities, with exceptions for employee and director benefit plans, intercompany issuances, conversion of outstanding securities and issuances in connection with any mergers or other business combinations involving us that are approved by our board of directors, if the consideration received by us for similar transactions, including the proposed transaction, during the prior 12 months exceeds $25 million.

For so long as any directors nominated by the Berkshire/Greenbriar investors or the Goldman Sachs investors are serving on our board of directors, any board action will require the approval of at least six directors, at least two of whom must be non-investor directors. In the event that our board consists of fewer than six directors, any board action will require the approval of all directors.

Each of the Berkshire/Greenbriar investors and the Goldman Sachs investors have agreed with us that, in any election of directors or at any meeting of our stockholders called for the removal of directors, so long as our board of directors includes, and will include after the removal, any director nominated by such investors, such investors will be present for purposes of establishing a quorum and will vote their shares of our voting securities:

- in favor of any nominee for director selected in accordance with the governance agreement or stockholders agreement, as the case may be; and

- against the removal of any director selected in accordance with the governance agreement or stockholders agreement, as the case may be.

Other than voting for the election of directors and as provided below under "Standstill," the Berkshire/Greenbriar investors and the Goldman Sachs investors are free to vote their shares of our voting securities as they wish except:

- in connection with an offer for a buyout transaction, in which case other restrictions apply, which are described below under "Buyout Transactions"; and
- each of the Berkshire/Greenbriar investors and the Goldman Sachs investors must vote against any amendment to our certificate of incorporation that would modify the indemnification provisions in a manner which would adversely affect the persons who are entitled to indemnification.

*Standstill.* Each of the Berkshire/Greenbriar investors and the Goldman Sachs investors has agreed, subject to specific exceptions, that without the approval of a majority of all of the directors, which majority must include at least two non-investor directors, they will not:

- purchase or otherwise acquire any beneficial ownership of our voting securities, except for:
  - shares of our common stock issuable upon conversion of our preferred stock;
  - shares of our common stock acquired through options granted to directors nominated by the investors;
  - in the case of the Goldman Sachs investors, a limited number of shares of our common stock which may be acquired inadvertently through broker dealer activities; or
  - in the case of the Berkshire/Greenbriar investors, additional voting securities so long as the Berkshire/Greenbriar investors never own more than 39.5% of the total voting power of our voting securities;
- enter into, solicit or support any merger or business combination involving us or purchase, acquire, or solicit or support the purchase or acquisition of any portion of our business or assets, except in the ordinary course of business, in nonmaterial amounts or in accordance with the provisions regarding buyout transactions described below;
- initiate or propose any stockholder proposal without the approval of our board of directors or make, or in any way participate in, any solicitation of proxies, as these terms are used in Section 14 of the Securities Exchange Act of 1934, to vote or seek to advise or influence any person or entity with respect to the voting of any of our securities or request or take any action to obtain any list of security holders for such purposes with respect to any matter other than those with respect to which the investors may vote in their sole discretion under the stockholders agreement and governance agreement;
- form or otherwise participate in a group formed for the purpose of acquiring, holding, voting, disposing of or taking any action with respect to the voting securities held by the investors that would be required under Section 13(d) of the Securities Exchange Act of 1934 to file a statement on Schedule 13D with the SEC, other than a group made up of only Berkshire/Greenbriar investors or a group made up of only Goldman Sachs investors;
- deposit any of our voting securities in a voting trust or enter into any voting agreement other than the stockholders agreement or the governance agreement;
- seek representation on our board of directors, remove a director or seek a change in the size or composition of our board of directors, except as provided by the stockholders agreement and the governance agreement;
- make any request to amend or waive any of these standstill provisions, which would require public disclosure under applicable law, rule or regulation;

disclose any intent, purpose, plan, arrangement or proposal inconsistent with the actions listed above, or take any action that would require public disclosure of any such intent, purpose, plan, arrangement or proposal;

take any action challenging the validity or enforceability of the actions listed above; or

assist, advise, encourage or negotiate with respect to or seek to do any of the actions listed above.

Notwithstanding the foregoing, neither the Berkshire/Greenbriar investors nor the Goldman Sachs investors may acquire, sell, transfer or otherwise dispose of beneficial ownership of any of our voting securities if such action would result in a default, or acceleration of amounts outstanding, under our senior secured credit facility or the indenture governing our outstanding 9.75% senior subordinated notes due 2009, unless, prior to such action, any required consents under these debt instruments are obtained. In addition, the Berkshire/Greenbriar investors and the Goldman Sachs investors may propose "buyout transactions" (as defined below) and may participate in buyout transactions proposed by third parties, provided that their actions are consistent with the provisions under "Buyout Transactions" below.

*Buyout Transactions.* The Berkshire/Greenbriar investors and the Goldman Sachs investors are subject to certain restrictions with respect to a "buyout transaction." A "buyout transaction" is generally defined as a tender offer, merger or any similar transaction in which a third party would acquire a majority of our voting securities or a sale of all or substantially all of our assets.

If we become the subject of a buyout transaction proposed by a third party, and the buyout transaction is approved by a majority of our board of directors and a majority of our "disinterested directors" (as defined below), including two of the non-investor directors, the Berkshire/Greenbriar investors and the Goldman Sachs investors may act in their sole discretion with respect to the buyout transaction.

If we become the subject of a buyout transaction proposed by a third party and the offer either fails to be approved by a majority of our board of directors or is approved by a majority of our board of directors but not by a majority of our disinterested directors, including two of our non-investor directors, then the Berkshire/Greenbriar investors and the Goldman Sachs investors must:

vote their shares of our voting securities against the buyout transaction in proportion to the votes cast by our other stockholders against the buyout transaction; and

not tender or sell their shares of our voting securities to the person proposing the buyout transaction in a proportion greater than the tenders or sales made by our other stockholders to the person proposing the buyout transaction.

With respect to any buyout transaction, a "disinterested director" is a director who is not an interested director within the meaning of Section 144 of the Delaware General Corporation Law with respect to such buyout transaction. No director nominated by the Berkshire/Greenbriar investors or the Goldman Sachs investors will be deemed to be a disinterested director with respect to a buyout proposal made by the Berkshire/Greenbriar investors or the Goldman Sachs investors, respectively.

*Issuance of Additional Securities.* For so long as the Berkshire/Greenbriar investors and the Goldman Sachs investors are entitled to designate one or more nominees for election to our board of directors, if we issue any additional voting securities for cash, the Berkshire/Greenbriar investors and the Goldman Sachs investors, as the case may be, will have the option to purchase an amount of securities that would allow them to maintain their respective percentage ownership of the total voting power of our voting securities after the issuance. Any such purchase would be for the same price and otherwise on the same terms as those governing the new issuance. However, this right

will not apply to any issuance of our voting securities upon conversion of any of our convertible securities, or pursuant to our stock option, incentive compensation or similar plans.

*Transfer Restrictions.* The Berkshire/Greenbriar investors may not sell or transfer any Hexcel voting securities, and the Goldman Sachs investors may not sell or transfer the shares acquired by them in the preferred stock sale (including any shares into which these shares may be converted), except for sales or transfers:

- in accordance with the volume and manner-of-sale limitations of Rule 144 under the Securities Act, and otherwise subject to compliance with the Securities Act;
- in a registered public offering;
- in a non-registered offering subject to an exemption from the registration requirements of the Securities Act, in a manner calculated to achieve a broad distribution (generally meaning that no third party acquiring voting securities in the transaction will hold more than 5% of our total voting power after the transaction); or
- in a buyout transaction proposed by a third party, but only if otherwise permitted as described above under "Buyout Transactions."

Additionally, the shares of our common stock beneficially owned by the Goldman Sachs investors prior to March 19, 2003, may only be sold or transferred by the Goldman Sachs investors:

- in accordance with the provisions of the Pledge Agreements;
- to affiliates of the Goldman Sachs investors, provided the transferee agrees to be bound by the terms of the governance agreement;
- in accordance with the volume and manner-of-sale limitations of Rule 144 under the Securities Act, and otherwise subject to compliance with the Securities Act, in a manner calculated to achieve a broad distribution;
- in a registered public offering or a non-registered offering subject to an exemption from the registration requirements of the Securities Act, in a manner calculated to achieve a broad distribution;
- in a buyout transaction proposed by a third party, but only if otherwise permitted as described above under "Buyout Transactions"; or
- which are a limited number of shares of our common stock that may be acquired by the Goldman Sachs investors or their affiliates either inadvertently through broker dealer activities or through options granted to directors nominated by the Goldman Sachs investors.

*Term.* Each of the stockholders agreement and the governance agreement, as the case may be, will terminate upon the earlier of:

- March 19, 2013; and
- an event that causes the percentage of our voting securities beneficially owned by the Berkshire/Greenbriar investors or the Goldman Sachs investors, as the case may be, to be less than 10% or equal to or more than 90%.

In addition, either party may terminate the stockholders agreement or the governance agreement, as the case may be, if the other party to such agreement breaches a material obligation under such agreement and fails to cure the breach within 60 days of written notice of the breach from the other party to that agreement.

***The Registration Rights Agreements***

Each of the registration rights agreements grants the Berkshire/Greenbriar investors and the Goldman Sachs investors, as the case may be, three "demand" registration rights, pursuant to which such investors may require us to use our commercially reasonable efforts to register under the Securities Act the shares of our common stock and, after the third anniversary of the original issuance date, the shares of our series A preferred stock, held by them. Any demand must be for a number of shares that represents at least 20% of the total voting power then held by the investors making the demand and must have an aggregate anticipated offering price of at least $25,000,000.

The Berkshire/Greenbriar investors and the Goldman Sachs investors also have "piggyback" registration rights. These rights generally permit the Berkshire/Greenbriar investors and the Goldman Sachs investors to include their shares of our common stock and, after March 19, 2006, the shares of our series A preferred stock, in any other registration by us to sell shares of our common stock under the Securities Act.

The registration rights agreements provide for blackout periods during which we will not be required to register the shares of our capital stock otherwise eligible for registration under the registration rights agreements. The registration rights agreements also contain provisions relating to the priority for inclusion of shares in an underwritten offering in the event that the underwriters determine that the number of shares requested to be included in this offering must be reduced.

We are generally required to pay for all expenses in connection with these registrations, except for underwriting discounts and commissions relating to the shares of our capital stock sold by the investors. Specifically, and in accordance with the registration rights agreements between the Company and each of the Goldman Sachs investors and the Berkshire/Greenbriar investors, respectively, the Company will reimburse each of the Goldman Sachs investors and the Berkshire/Greenbriar investors (up to an aggregate of $75,000 each) for the fees and disbursements of their counsel incurred in connection with this offering.

The registration statement of which this prospectus is a part has been filed by the Company pursuant to the exercise of a demand registration right by the Goldman Sachs investors and the exercise of a piggyback registration right by the Berkshire/Greenbriar investors.

***Preferred Stock Certificates of Designation***

Each of the Goldman Sachs investors and the Berkshire/Greenbriar investors have certain rights under the certificates of designation for each of the series A preferred stock and the series B preferred stock. These rights arise solely because the Goldman Sachs investors and the Berkshire/Greenbriar investors own the preferred stock. Should some or all of the preferred stock be transferred to a third party or parties, such third party or parties would have these exact same rights, although the rights of the Goldman Sachs investors and the Berkshire/Greenbriar investors to transfer some or all of the preferred stock are limited by the terms of the governance agreement and stockholders agreement, as described above. See "Description of Capital Stock" for a summary of certain terms of the series A preferred stock and the series B preferred stock.

***Other Relationships with the Goldman Sachs Investors***

In March 2003, an affiliate of the Goldman Sachs investors acted as lead initial purchaser for our private offering under Rule 144A of $125 million of our 9.875% senior secured notes due 2008, and received a fee of $2.25 million from us. An affiliate of the Goldman Sachs investors acts as a market-maker with respect to our 9.875% senior secured notes due 2008 and our 9.75% senior subordinated notes due 2009. From time to time we engage in interest rate swaps with, and purchase forward currency contracts and options from, affiliates of the Goldman Sachs investors. In addition, an affiliate of the Goldman Sachs investors is serving as an underwriter with respect to this offering.

## DESCRIPTION OF CAPITAL STOCK

The Company's authorized capital stock consists of 200,000,000 shares of common stock, $0.01 par value, and 20,000,000 shares of preferred stock, no par value.

**Common Stock**

As of November 22, 2004, 40,381,080 shares of common stock were issued and outstanding and held by approximately 1,298 record holders. Holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders and to vote on all matters on which a vote of stockholders is taken, except as otherwise provided by statute. Subject to the rights of holders of outstanding shares of our preferred stock, the holders of common stock are entitled to receive dividends, if any, as may be declared from time to time by the Board of Directors in its discretion from funds legally available therefor, and, upon liquidation or dissolution of the Company, are entitled to receive all assets available for distribution to stockholders. Holders of common stock, other than the Goldman Sachs investors and the Berkshire/Greenbriar investors, have no preemptive rights or other rights to subscribe for additional shares and no conversion rights. The common stock is not subject to redemption or to any sinking fund provisions, and all outstanding shares of common stock are fully paid and nonassessable. Subject to the preferential rights of the holders of shares of any series of preferred stock, holders of common stock are entitled to their pro rata share of the assets of the Company upon liquidation.

**Preferred Stock**

Preferred stock may be issued from time to time in one or more series without further stockholder approval. The Board of Directors may designate the number of shares to be issued in such series and the rights, preferences, privileges and restrictions granted to or imposed on the holders of such shares. If issued, such shares of preferred stock could have dividends and liquidation preferences and may otherwise affect the rights of holders of common stock.

As of November 22, 2004, 125,000 shares of series A preferred stock and 125,000 shares of series B preferred stock were issued and outstanding. The Certificates of Designations for the series A preferred stock and the series B preferred stock designate 125,000 shares each of such shares. Shares of both the series A preferred stock and the series B preferred stock are without par value. The following is a summary of the material terms of the preferred stock. The Certificates of Designations for each of the series A preferred stock and the series B preferred stock were filed with the SEC on March 31, 2003 as exhibits to Amendment No. 1 to Hexcel's Annual Report on Form 10-K for the year ended December 31, 2002.

*Ranking*

Our preferred stock is senior to our common stock, and our series A preferred stock ranks on parity with our series B preferred stock, with respect to rights upon our liquidation, winding up or dissolution. Our series A preferred stock ranks senior to our common stock and our series B preferred stock with respect to dividends. In this regard, unless and until full cumulative dividends on our series A preferred stock in respect of all past quarterly dividends have been paid, we may not pay any cash dividends on shares of our common stock. Our series B preferred stock ranks on parity with our common stock with respect to the dividends declared on our common stock to which the holders of our series B preferred stock are entitled.

*Dividends*

*Series A Preferred Stock*

Commencing on March 19, 2006, holders of our series A preferred stock will be entitled to receive dividends at an annual rate of 6% of the "accrued value," which is equal to the sum of $1,195.618 and an amount equal to the aggregate of all accrued but unpaid dividends, whether or not declared, that have been added to the accrued value pursuant to the terms of the certificate of designations for our series A preferred stock, as described below. Dividends are payable on the 15th of each January, April, July and October, commencing on March 19, 2006, are cumulative whether or not they are earned or declared and compound quarterly in arrears. We may pay the dividends on our series A preferred stock either entirely in cash or, at our option, by allowing them to accrue and compound and become payable upon liquidation, redemption and conversion. Such dividends will cease to accrue at such time as our series A preferred stock becomes automatically convertible. See " Conversion of Preferred Stock into Common Stock." In addition, in the event that dividends (other than dividends consisting, in whole or in part, of our common stock or securities convertible into our common stock) are paid on our common stock, the holders of our series A preferred stock are entitled to receive such dividends on an "as-converted" basis (disregarding, for this purpose, the conversion limitations described below under " Conversion of Preferred Stock into Common Stock").

*Series B Preferred Stock*

In the event that dividends (other than dividends consisting, in whole or in part, of our common stock or securities convertible into our common stock) are paid on our common stock, the holders of our series B preferred stock are entitled to receive such dividends on an "as-converted" basis (disregarding, for this purpose, the conversion limitations described below under " Conversion of Preferred Stock into Common Stock"). No other dividends accrue or are payable on our series B preferred stock.

*Conversion of Preferred Stock into Common Stock*

*Series A Preferred Stock*

Each share of our series A preferred stock is convertible, at the option of the holder, into a number of shares of our common stock equal to $1,000 (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series A preferred stock) divided by a conversion price, initially set at $3.00 per share, subject to anti-dilution adjustments (as adjusted, the "conversion price").

Holders of our series A preferred stock may convert their shares into our common stock at any time, except under certain circumstances.

Upon conversion of a share of our series A preferred stock, the holder will be entitled to receive, in addition to the number of shares of common stock described above, an amount equal to such share's "conversion payment," payable by us either entirely in cash or entirely in shares of our common stock valued at either 90% of the closing trading price on the conversion date (if we are paying in shares of our common stock at our option) or 95% of the closing trading price on the conversion date (if we are paying in shares of our common stock because we do not have sufficient capital, surplus or other funds available or because we are restricted by our debt instruments from making the conversion payment in cash).

The "conversion payment" with respect to each share is equal to the amount of dividends that have accrued and not been paid on such share since the dividend commencement date and prior to the occurrence of the "dividend accrual event" (as defined below).

The "dividend accrual event" occurs if and when the closing trading price of our common stock for any period of 60 consecutive trading days ending after the third anniversary of the original issuance date of the preferred stock exceeds $6.00 (subject to adjustment for any split, subdivision, combination, consolidation or reclassification of our common stock).

Subject to certain restrictions, our series A preferred stock will automatically convert into our common stock (on the conversion terms described above) if the closing trading price of our common stock for any period of 60 consecutive trading days ending after March 19, 2006 exceeds $9.00 (subject to adjustment for any split, subdivision, combination, consolidation or reclassification of our common stock).

*Series B Preferred Stock.*

Each share of our series B preferred stock is convertible, at the option of the holder, into a number of shares of our common stock equal to $195.618 divided by a conversion price initially set at $3.00 per share, subject to adjustment for any split, subdivision, combination, consolidation or reclassification of our common stock.

Upon conversion of a share of our series B preferred stock, the holder will not be entitled to receive any conversion payment.

Subject to certain restrictions, our series B preferred stock will automatically convert into our common stock (on the conversion terms described above) if the closing trading price of our common stock for any period of 60 consecutive trading days ending after the third anniversary of the original issuance date of the preferred stock exceeds $9.00 (subject to adjustment for any split, subdivision, combination, consolidation or reclassification of our common stock).

*Mandatory Redemption*

*Series A Preferred Stock*

We must redeem all outstanding shares of our series A preferred stock on January 22, 2010 at a mandatory redemption price equal to the liquidation preference (as defined below under "  Liquidation Preference"). Generally we must redeem the shares for cash; however we shall be entitled to pay the redemption price using shares of our common stock if the redemption price is equal to the "participating preference amount" (as defined below under "  Liquidation Preference") and the holder does not elect instead to receive a lower value, the "adjusted accrued value" (as defined below under "  Liquidation Preference"), in cash.

*Series B Preferred Stock*

We must redeem all outstanding shares of our series B preferred stock on January 22, 2010. The redemption will be at a mandatory redemption price equal to the greater of $195.618 per share (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series B preferred stock) and the participating redemption amount (as defined below), which greater amount is referred to as the "redemption amount." Generally we must redeem the shares for cash; however we must use shares of our common stock in such redemption if the redemption amount is equal to the participating redemption amount and the holder does not elect to receive cash in connection with the mandatory redemption of our series A preferred stock.

*Offer To Purchase Upon Change of Control*

*Series A Preferred Stock*

In the event a change of control (as defined in the indenture governing our 9.75% senior subordinated notes due 2009) occurs, we must offer to redeem all outstanding shares of our

series A preferred stock for cash or, under the circumstances described below, our common stock, within 10 business days following the change of control, at a redemption price per share equal to the greater of (1) 101% of the adjusted accrued value and (2) the participating preference amount. We shall be entitled to use shares of our common stock in such redemption if the redemption price is equal to the participating preference amount and the holder does not elect to receive a lower value, the adjusted accrued value, in cash.

*Series B Preferred Stock*

In the event a change of control occurs, we must offer to redeem from each holder that number of outstanding shares of our series B preferred stock held by such holder equal to the number of shares of our series A preferred stock that we redeem from such holder in connection with such change of control, within 10 business days following the change of control, at a redemption price equal to the redemption amount (as defined under " Mandatory Redemption Series B Preferred Stock"). Generally we must redeem the shares for cash; however we must use shares of our common stock in such redemption if the redemption amount is equal to the participating redemption amount and the holder does not elect to receive cash in connection with the redemption of our series A preferred stock upon a change of control.

*Reorganization; Consolidation; Merger; Asset Sale*

In the event of:

- any capital reorganization or reclassification of our common stock (other than a reclassification subject to the anti-dilution adjustment described above under " Conversion of Preferred Stock into Common Stock");
- any consolidation or merger of us with or into another entity; or
- any sale or conveyance to another person or entity of our property as an entirety or substantially as an entirety;

each then-outstanding share of our series A preferred stock and each then-outstanding share of our series B preferred stock will thereafter be convertible into (upon receipt of any requisite governmental approvals) the same consideration receivable in such transaction as such holder would have been entitled to receive in the transaction had such share of preferred stock been converted into our common stock immediately prior to such transaction. In any such case, we will make appropriate provision, as determined in good faith by our board of directors, to ensure that the terms relating to dividends, voting rights, offer to purchase upon a change of control, liquidation and dissolution and conversion (other than mandatory conversion) will continue to be applicable to our preferred stock. We may not effect any such transaction unless the surviving person or entity in the transaction assumes the obligation to deliver this consideration to the holders of our preferred stock.

*Voting Rights*

*Series A Preferred Stock*

The holders of shares of our series A preferred stock will be entitled to vote on all matters put to a vote or consent of our stockholders, voting together with the holders of our common stock and the holders of our series B preferred stock as a single class. Each holder of shares of our series A preferred stock will have the number of votes equal to the number of shares of our common stock into which such shares could be converted as of the applicable record date. In addition, without the prior consent of holders of at least 70% of the outstanding shares of our series A preferred stock, we may not (1) amend, repeal or restate our restated certificate of incorporation or bylaws or the certificate of designations for the series A preferred stock in a manner that adversely affects the

rights of the holders of our series A preferred stock or (2) authorize, issue or otherwise create any shares of capital stock ranking on parity with or senior to our series A preferred stock or any additional shares of our series A preferred stock.

*Series B Preferred Stock*

The holders of shares of our series B preferred stock will be entitled to vote on all matters put to a vote or consent of our stockholders, voting together will the holders of our common stock and the holders of our series A preferred stock as a single class. Each holder of shares of our series B preferred stock will have the number of votes equal to the number of shares of our common stock into which such shares could be converted as of the applicable record date. In addition, without the prior consent of holders of at least 70% of the outstanding shares of our series B preferred stock, we may not amend, repeal or restate our restated certificate of incorporation or bylaws or the certificate of designations for the series B preferred stock in a manner that adversely affects the rights of the holders of our series B preferred stock.

*Liquidation Preference*

*Series A Preferred Stock*

Upon our liquidation, winding up or dissolution, or the occurrence of specified bankruptcy events, each share of our series A preferred stock is entitled to a cash payment equal to its "liquidation preference," which is defined as an amount equal to the greater of (1) $1,000 (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series A preferred stock), if measured prior to the third anniversary of the original issuance date of the preferred stock, or the "adjusted accrued value" (as defined below) of such share, if measured on or after the third anniversary of the original issuance date of the preferred stock, and (2) the "participating preference amount" (as defined below). In the event our liquidation occurs due to a voluntary case under the federal bankruptcy laws or any other applicable similar state or federal law, if the liquidation preference with respect to a share of our series A preferred stock is equal to the participating preference amount, then each holder of shares of our series A preferred stock will receive out of assets available for distribution to our stockholders a liquidation preference that is (1) in preference to any distribution to holders of our common stock or any other stock that ranks junior to our series A preferred stock with respect to dividend rights and rights on liquidation, winding up and dissolution, an amount of cash with respect to each share of our series A preferred stock equal to the adjusted accrued value and (y) thereafter, the holders of such shares will be entitled to share in all of our remaining assets *pari passu*, with the holders of our common stock (with the holders of our series A preferred stock deemed to hold the number of shares of our common stock into which such shares, if their liquidation preference were equal to the amount by which the participating preference amount exceeds the adjusted accrued value, would be convertible) until the holders of our series A preferred stock have received an amount equal to the amount by which the participating preference amount exceeds the adjusted accrued value. The payment of the liquidation preference must be made to holders of our series A preferred stock before any payment or distribution may be made to holders of our common stock.

The "adjusted accrued value" is defined as $1,000 (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series A preferred stock) plus the aggregate amount of accrued but unpaid dividends which have been added to the accrued value of such share plus the aggregate amount of accrued but unpaid dividends which have not been added to the accrued value of such share. The "participating preference amount" is defined as the amount that would be payable to the holder of such share in respect of the number of shares of our common stock issuable upon conversion of such share if all shares of our series A preferred stock were converted into shares of our common stock immediately prior to liquidation

(disregarding the conversion limitations described above under " Conversion of Preferred Stock into Common Stock").

*Series B Preferred Stock*

Upon our liquidation, winding up or dissolution, or the occurrence of specified bankruptcy events, each share of our series B preferred stock is entitled to the "liquidation preference," which is defined as an amount equal to the greater of (1) the adjusted value (as defined below) of such share plus the amount of proceeds that would be distributed in such liquidation to a holder of the number of shares of our common stock equal to the quotient obtained by dividing the difference between $195.618 (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series B preferred stock) and the adjusted value by $3.00 (as adjusted for any split, subdivision, combination, consolidation or reclassification of our common stock) and (2) the participating preference amount. The payment of the liquidation preference must be made to holders of our series B preferred stock before any payment or distribution may be made to holders of our common stock. The "adjusted value" is defined as $195.618 (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to our series B preferred stock) multiplied by the lesser of (1) 1.00 and (2) the quotient obtained by dividing the number of days elapsed between the original issuance date and the date of liquidation or redemption, as applicable, by 1096.

*Preemptive Rights*

Our series A preferred stock and our series B preferred stock do not carry preemptive rights, although the Goldman Sachs investors and the Berkshire/Greenbriar investors do have certain preemptive rights pursuant to contractual arrangements with us. See "Certain Relationships and Related Transactions Relationship with the Goldman Sachs investors and the Berkshire/Greenbriar investors Governance Agreement and Stockholders Agreement Issuance of Additional Securities."

**Section 203 of the Delaware General Corporation Law**

The Company is a Delaware corporation and is subject to Section 203 of the General Corporation Law of the State of Delaware (the "GCL"). In general, Section 203 of the GCL prevents a Delaware corporation from engaging in any "business combination" (as defined below) with an "interested stockholder" (defined as a person who, together with affiliates and associates, beneficially owns (or within the preceding three years, did beneficially own) 15% or more of a corporation's outstanding voting stock) for a period of three years following the time that such person became an interested stockholder, unless (i) before such person became an interested stockholder, the board of directors of the corporation approved either the transaction in which the interested stockholder became an interested stockholder or the business combination; (ii) upon consummation of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding shares owned by persons who are both officers and directors of the corporation and shares held by certain employee stock plans); or (iii) on or after such time the business combination is approved by the board and authorized at an annual meeting of stockholders, and not by written consent, by the affirmative vote of the holders of at least 66$^{2}/_{3}$% of the outstanding voting stock of the corporation that is not owned by the interested stockholder. A "business combination" generally includes mergers, stock or asset or sales involving 10% or more of the market value of the corporation's assets or stock, certain stock transactions and other transactions resulting in a financial benefit to the interested stockholders or an increase in their proportionate share of any class or series of a corporation.

## SHARES ELIGIBLE FOR FUTURE SALE

**General**

Future sales in the public markets of substantial amounts of our common stock, or the perception that these sales could occur, could adversely affect the market prices prevailing from time to time for our common stock. It could also impair our ability to raise capital through future sales of equity securities.

Immediately after the completion of this offering, we will have 50,280,994 shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and assuming the conversion of 14,466 shares of our series A preferred stock and 77,875 shares of series B preferred stock. Additional shares may be issued as described below.

**Common Stock Issuable Pursuant to Employee Benefit Plans**

We have various equity 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. As of November 22, 2004, the aggregate number of shares of our common stock issuable pursuant to outstanding awards granted under these plans was approximately 8.3 million shares, approximately 5.3 million of which have vested. In addition, approximately 5.2 million shares may be issued in connection with future awards under our existing equity incentive plans. Shares of common stock issued under these plans are freely transferable without further registration under the Securities Act, except for any shares held by an affiliate (as that term is defined in Rule 144A under the Securities Act).

**Common Stock Issuable Upon Conversion Of Preferred Stock**

After completion of this offering, 110,534 shares of our series A preferred stock and 47,125 shares of our series B preferred stock will remain outstanding and will be convertible into an aggregate of 39,917,493 shares of our common stock. See "Description of Capital Stock  Preferred Stock  Conversion of Preferred Stock into Common Stock" for a description of the conversion features of our preferred stock. All of these shares are "restricted shares" and, absent an effective registration statement under the Securities Act, may be sold only pursuant to an exemption under the Securities Act, including Rule 144.

**Common Stock Issuable Upon the Conversion of Our 7% Convertible Subordinated Debentures Due 2011**

As of November 22, 2004, $19,250,000 principal amount of our 7% convertible subordinated debentures due 2011 were issued and outstanding. The debentures have a conversion price of $30.72 principal amount of debentures for each share of common stock and, as of November 22, 2004, are convertible into an aggregate of 626,627 shares of our common stock that are registered under the Securities Act.

**Rule 144**

*General*

In general, Rule 144 provides that a person may sell within any three month period a number of shares that does not exceed the greater of:

- 1% of the total number of shares of common stock then outstanding; or

the average weekly trading volume of the common stock on the New York Stock Exchange during the four calendar weeks preceding the filing of notice on Form 144 with respect to the sale,

subject to a requirement that any "restricted" shares (which do not include any shares issued in our reorganization) have been beneficially owned for at least one year, including the holding period of any prior owner which was not an affiliate.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

*Rule 144(k)*

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, is entitled to sell restricted shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144 subject to a requirement that any restricted shares have been beneficially owned for at least two years, including the holding period of any prior owner which was not an affiliate.

**Lock-ups**

We and the selling stockholders have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock, other than shares sold in this offering, during the period from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans. In addition, our Chief Executive Officer, Chief Financial Officer, General Counsel and the Presidents of our composites and reinforcements global business units have agreed to similar restrictions with respect to our common stock held or acquired by them except that, in the aggregate, these persons may sell up to 750,000 shares of our common stock during such period.

**Registration Rights**

Each of the Berkshire/Greenbriar investors and the Goldman Sachs investors is party to a registration rights agreement with us. Each of these agreements grants the Berkshire/Greenbriar investors and the Goldman Sachs investors, as the case may be, three demand registration rights, pursuant to which such investors may require us to use our commercially reasonable efforts to register under the Securities Act the shares of our common stock and, after March 19, 2006, shares of our series A preferred stock held by them. The Goldman Sachs investors have exercised a demand registration right in connection with this offering. The Berkshire/Greenbriar investors and the Goldman Sachs investors also have piggyback registration rights. These rights generally permit the Berkshire/Greenbriar investors and the Goldman Sachs investors to include their shares of our common stock and, after March 19, 2006, the shares of our series A preferred stock, in any other registration by us to sell shares of our common stock under the Securities Act. The Berkshire/Greenbriar investors have exercised their piggyback registration right in connection with this offering. Immediately after the completion of this offering and assuming no exercise of the underwriters' over-allotment option, the Berkshire/Greenbriar investors will own 21,136,331 shares of our common stock (including common stock into which preferred stock can be converted) and the Goldman Sachs investors will own 22,206,077 shares of our common stock (including common stock into which preferred stock can be converted) . For additional information, see "Certain Relationships and Related Transactions Relationship with the Goldman Sachs investors and the Berkshire/Greenbriar investors The Registration Rights Agreements."

**CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS**

The following is a general discussion of certain U.S. federal income tax consequences of the purchase, ownership and disposition of our common stock. This discussion applies only to a non-U.S. holder (as defined below) of our common stock. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, all of which are subject to change, possibly with retroactive effect. This discussion is limited to investors that hold our common stock as capital assets for U.S. federal income tax purposes. Furthermore, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, such as financial institutions, insurance companies, tax-exempt organizations, entities that are treated as partnerships for U.S. federal tax purposes, dealers in securities or currencies, expatriates, persons deemed to sell our common stock under the constructive sale provisions of the Code and persons that hold our common stock as part of a straddle, hedge, conversion transaction or other integrated investment. Furthermore, this discussion does not address any U.S. federal estate or gift tax consequences or any state, local or foreign tax consequences. Each prospective investor is advised to consult a tax advisor regarding the U.S. federal, state, local and foreign income, estate and other tax consequences of the purchase, ownership and disposition of our common stock.

For purposes of this summary, the term "non-U.S. holder" means a beneficial owner of our common stock that is not, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or other entity subject to tax as a corporation for such purposes that is created or organized under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (B) that has made a valid election to be treated as a U.S. person for such purposes.

If a partnership (including any entity or arrangement treated as a partnership for such purposes) owns our common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns our common stock should consult their tax advisors as to the particular U.S. federal income and estate tax consequences applicable to them.

**Dividends**

Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty. A non-U.S. holder that is eligible for a reduced rate of withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States and, if certain income tax treaties apply, that are attributable to a non-U.S. holder's permanent establishment in the United States are not subject to the withholding tax described above but instead are subject to U.S. federal income tax on a net income basis at applicable graduated U.S. federal income tax rates. A non-U.S. holder must satisfy certain certification requirements for its effectively connected dividends to be exempt from the withholding tax described above. Dividends received by a foreign corporation that are effectively connected with

its conduct of a trade or business in the United States may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

**Gain on Disposition of Common Stock**

A non-U.S. holder generally will not be taxed on gain recognized on a disposition of our common stock unless:

- the non-U.S. holder is an individual who holds our common stock as a capital asset, is present in the United States for 183 days or more during the taxable year of the disposition and meets certain other conditions;

- the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if certain income tax treaties apply, is attributable to a non-U.S. holder's permanent establishment in the United States; or

- we are or have been a "United States real property holding corporation" for U.S. federal income tax purposes at any time within the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held our common stock. We do not believe that we have been, currently are, or will become, a United States real property holding corporation. If we were or were to become a United States real property holding corporation at any time during the applicable period, however, any gain recognized on a disposition of our common stock by a non-U.S. holder that did not own (directly, indirectly or constructively) more than 5% of our common stock during the applicable period would not be subject to U.S. federal income tax, provided that our common stock is "regularly traded on an established securities market" (within the meaning of Section 897(c)(3) of the Code).

Individual non-U.S. holders who are subject to U.S. federal income tax because the holders were present in the United States for 183 days or more during the year of disposition are taxed on their gains (including gains from the sale of our common stock and net of applicable U.S. losses from sales or exchanges of other capital assets recognized during the year) at a flat rate of 30% or such lower rate as may be specified by an applicable income tax treaty. Other non-U.S. holders subject to U.S. federal income tax with respect to gain recognized on the disposition of our common stock generally will be taxed on any such gain on a net income basis at applicable graduated U.S. federal income tax rates and, in the case of foreign corporations, the branch profits tax discussed above also may apply.

**Information Reporting and Backup Withholding**

In general, backup withholding will apply to dividends on our common stock paid to a non-U.S. holder, unless the holder has provided the required certification that it is a non-U.S. holder and the payor does not have actual knowledge (or reason to know) that the holder is a U.S. person. Generally, information will be reported to the Internal Revenue Service regarding the amount of dividends paid, the name and address of the recipient and the amount, if any, of tax withheld. These information reporting requirements apply even if no tax was required to be withheld. A similar report is sent to the recipient of the dividend.

In general, backup withholding and information reporting will apply to the payment of proceeds from the disposition of our common stock by a non-U.S. holder through a U.S. office of a broker or through the non-U.S. office of a broker that is a U.S. person or has certain enumerated connections with the United States, unless the holder has provided the required certification that it is a non-U.S. holder and the payor does not have actual knowledge (or reason to know) that the holder is a U.S. person.

Backup withholding is not an additional tax. Any amounts that are withheld under the backup withholding rules from a payment to a non-U.S. holder will be refunded or credited against the holder's U.S. federal income tax liability, if any, provided that certain required information is furnished to the Internal Revenue Service.

Non-U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules to them.

**UNDERWRITING**

The Company, the selling stockholders and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. and Credit Suisse First Boston LLC are the representatives of the underwriters.

| Underwriters | Number of Shares |
| --- | --- |
| Goldman, Sachs & Co | |
| Credit Suisse First Boston LLC | |
| Deutsche Bank Securities Inc. | |
| Bear, Stearns & Co. Inc. | |
| Jefferies Quarterdeck, a division of Jefferies & Company, Inc. | |
| Total | |

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 3,149,998 shares from the selling stockholders to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by the selling stockholders. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 3,149,998 additional shares.

Paid by the Selling Stockholders

| | No Exercise | Full Exercise |
| --- | --- | --- |
| Per Share | $ | $ |
| Total | $ | $ |

Shares sold by the underwriters to the public will initially be offered at the initial price to public set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial price to public. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial price to public. If all the shares are not sold at the initial price to public, the representatives may change the offering price and the other selling terms.

The Company and the selling stockholders have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock, other than shares sold in this offering, during the period from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans. In addition, the Chief Executive Officer, Chief Financial Officer, General Counsel and the Presidents of the composites and reinforcements global business units of the Company have agreed to similar restrictions with respect to common stock of the

Company held or acquired by them except that, in the aggregate, these persons may sell up to 750,000 shares of the common stock during such period.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from the selling stockholders in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the Company's stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

The Company or the selling stockholders may enter into derivative transactions with third parties or sell securities not covered by this prospectus to third parties in privately negotiated transactions. In connection with those derivatives, the third parties may sell securities covered by this prospectus, including in short sale transactions. If so, the third party may use securities pledged by the Company or the selling stockholders or borrowed from the Company, the selling stockholders or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from the Company or the selling stockholders in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter or will be identified in a post-effective amendment.

Each underwriter has represented, warranted and agreed that: (i) it has not offered or sold and, prior to the expiry of a period of six months from the Closing date, will not offer or sell any shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any shares in circumstances in which

section 21(1) of the FSMA does not apply to the Company; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the securities to the public in Singapore.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

The Company and the selling stockholders estimate that their share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $1,070,000.

The Company and the selling stockholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Company, for which they received or will receive customary fees and expenses. In addition, certain affiliates of Goldman, Sachs & Co. are holders of a portion of the series A preferred stock and a portion of the series B preferred stock and are entitled to designate nominees for election to the Board of Directors, among other rights. Certain other affiliates of Goldman, Sachs & Co., who are holders of a portion of common stock of the Company and are entitled to designate a nominee for election to the Board of Directors, among other rights, will be selling stockholders in this offering. For more information on the these relationships, see "Selling Stockholders" and "Certain Relationships and Related Transactions."

## LEGAL MATTERS

The validity of the securities offered hereby have been passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. The underwriters have been represented by Cravath, Swaine & Moore LLP, New York, New York.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

The consolidated financial statements of Hexcel Corporation as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 included in the Annual Report on Form 10-K of Hexcel Corporation for the year ended December 31, 2003 have been included and incorporated by reference in this prospectus in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of PricewaterhouseCoopers LLP as experts in auditing and accounting.

The consolidated financial statements of Hexcel Holdings Denmark ApS and Hexcel Holdings (UK) Limited as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 included in the Annual Report on Form 10-K of Hexcel Corporation for the year ended December 31, 2003 have been incorporated by reference in this prospectus in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of PricewaterhouseCoopers LLP as experts in auditing and accounting.

## EXPERTS

The financial statements of BHA Aero Composite Parts Co., Ltd. incorporated in this prospectus by reference to Hexcel Corporation's Annual Report Form 10-K for the year ended December 31, 2003 have been audited by Deloitte Touche Tohmatsu, independent auditors, as stated in their report (which report expresses an unqualified opinion and includes an explanatory paragraph referring to BHA Aero Composite Parts Co., Ltd.'s ability to continue as a going concern), which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**INDEX TO FINANCIAL STATEMENTS**


| | Page |
|---|---|
| **Condensed Consolidated Financial Statements of Hexcel Corporation (Unaudited)** | |
| Condensed Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003 | F-2 |
| Condensed Consolidated Statements of Operations for the quarters and nine months ended September 30, 2004 and 2003 | F-3 |
| Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2004 and 2003 | F-4 |
| Notes to Condensed Consolidated Financial Statements | F-5 |
| **Consolidated Financial Statements of Hexcel Corporation** | |
| Report of Independent Registered Public Accounting Firm | F-29 |
| Consolidated Balance Sheets as of December 31, 2003 and 2002 | F-30 |
| Consolidated Statements of Operations for each of the three years ended December 31, 2003 | F-31 |
| Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss) for each of the three years ended December 31, 2003 | F-32 |
| Consolidated Statements of Cash Flows for each of the three years ended December 31, 2003 | F-33 |
| Notes to the Consolidated Financial Statements | F-34 |

**Hexcel Corporation and Subsidiaries**
**Condensed Consolidated Balance Sheets**

| | Unaudited | |
|---|---|---|
| **(In millions, except per share data)** | **September 30, 2004** | **December 31, 2003** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 51.5** | $ 41.7 |
| Accounts receivable, net | **146.1** | 126.2 |
| Inventories, net | **144.9** | 120.5 |
| Prepaid expenses and other current assets | **18.0** | 16.2 |
| Total current assets | **360.5** | 304.6 |
| Property, plant and equipment | **697.7** | 688.0 |
| Less accumulated depreciation | **(425.7)** | (394.1) |
| Net property, plant and equipment | **272.0** | 293.9 |
| Goodwill | **76.7** | 76.9 |
| Investments in affiliated companies | **6.7** | 7.4 |
| Other assets | **34.7** | 39.9 |
| Total assets | **$ 750.6** | $ 722.7 |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| Current liabilities: | | |
| Notes payable and current maturities of capital lease obligations | **$ 3.8** | $ 2.1 |
| Accounts payable | **81.2** | 64.1 |
| Accrued liabilities | **115.1** | 97.7 |
| Total current liabilities | **200.1** | 163.9 |
| Long-term notes payable and capital lease obligations | **453.6** | 481.3 |
| Other non-current liabilities | **64.6** | 64.9 |
| Total liabilities | **718.3** | 710.1 |
| Mandatorily redeemable convertible preferred stock, 0.125 shares of series A and 0.125 shares of series B authorized, issued and outstanding at September 30, 2004 and December 31, 2003 | **115.4** | 106.0 |
| Stockholders' equity (deficit): | | |
| Preferred stock, no par value, 20.0 shares authorized, no shares issued or outstanding at September 30, 2004 and at December 31, 2003 | | |
| Common stock, $0.01 par value, 200.0 shares of stock authorized, and 41.0 shares issued at September 30, 2004 and 40.0 shares issued at December 31, 2003 | **0.4** | 0.4 |
| Additional paid-in capital | **299.9** | 303.5 |
| Accumulated deficit | **(371.4)** | (392.6) |
| Accumulated other comprehensive income | **2.0** | 8.8 |
| | **(69.1)** | (79.9) |
| Less Treasury stock, at cost, 1.4 shares at September 30, 2004 and 1.3 shares at December 31, 2003 | **(14.0)** | (13.5) |

| | Unaudited | |
|---|---|---|
| | | |
| Total stockholders' equity (deficit) | **(83.1)** | (93.4) |
| Total liabilities and stockholders' equity (deficit) | **$ 750.6** | $ 722.7 |

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

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

| | Unaudited | | | |
|---|---|---|---|---|
| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
| (In millions, except per share data) | 2004 | 2003 | 2004 | 2003 |
| Net sales | **$ 263.1** | $ 212.8 | **$ 798.1** | $ 675.5 |
| Cost of sales | **208.2** | 173.2 | **627.1** | 542.3 |
| Gross margin | **54.9** | 39.6 | **171.0** | 133.2 |
| Selling, general and administrative expenses | **28.9** | 22.9 | **82.6** | 70.5 |
| Research and technology expenses | **5.3** | 4.6 | **15.2** | 13.2 |
| Business consolidation and restructuring expenses | **0.6** | 1.0 | **2.0** | 2.4 |
| Other (income) expense, net | **1.5** | (0.4) | **3.0** | (2.2) |
| Operating income | **18.6** | 11.5 | **68.2** | 49.3 |
| Interest expense | **12.0** | 13.5 | **36.3** | 41.1 |
| Non-operating (income) expense, net | | | **0.6** | 2.6 |
| Income (loss) before income taxes | **6.6** | (2.0) | **31.3** | 5.6 |
| Provision for income taxes | **2.3** | 0.7 | **10.9** | 5.9 |
| Income (loss) before equity in earnings (losses) | **4.3** | (2.7) | **20.4** | (0.3) |
| Equity in earnings (losses) of affiliated companies | | (0.3) | **0.8** | (1.1) |
| Net income (loss) | **4.3** | (3.0) | **21.2** | (1.4) |
| Deemed preferred dividends and accretion | **(3.2)** | (3.1) | **(9.4)** | (6.6) |
| Net income (loss) available to common shareholders | **$ 1.1** | $ (6.1) | **$ 11.8** | $ (8.0) |
| Net income (loss) per common share: | | | | |
| Basic | **$ 0.03** | $ (0.16) | **$ 0.30** | $ (0.21) |
| Diluted | **$ 0.03** | $ (0.16) | **$ 0.23** | $ (0.21) |
| Weighted-average common shares outstanding: | | | | |
| Basic | **39.4** | 38.7 | **39.2** | 38.6 |
| Diluted | **42.6** | 38.7 | **91.5** | 38.6 |

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

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

| | Unaudited | |
|---|---|---|
| | Nine Months Ended September 30, | |
| **(In millions)** | **2004** | **2003** |
| **Cash flows from operating activities** | | |
| Net income (loss) | **$ 21.2** | $ (1.4) |
| Reconciliation to net cash provided by operating activities: | | |
| Depreciation | **38.9** | 37.7 |
| Amortization of debt discount and deferred financing costs | **2.6** | 2.6 |
| Deferred income taxes (benefit) | **(0.5)** | (0.5) |
| Business consolidation and restructuring expenses | **2.0** | 2.4 |
| Business consolidation and restructuring payments | **(3.8)** | (7.3) |
| Equity in (earnings) losses of affiliated companies | **(0.8)** | 1.1 |
| Working capital changes and other | **(14.1)** | (7.4) |
| Net cash provided by operating activities | **45.5** | 27.2 |
| **Cash flows from investing activities** | | |
| Capital expenditures | **(20.3)** | (12.5) |
| Proceeds from sale of an ownership interest in an affiliated company | | 23.0 |
| Proceeds from the sale of assets | **6.5** | 5.7 |
| Dividends from an affiliated company | **1.5** | 1.0 |
| Net cash provided by (used for) investing activities | **(12.3)** | 17.2 |
| **Cash flows from financing activities** | | |
| Proceeds from (repayments of) senior secured credit facilities, net | **(4.1)** | 7.1 |
| Proceeds from issuance of 9.875% senior secured notes, net of discount | | 123.7 |
| Repayments of senior credit facility, net | | (179.7) |
| Redemption of 7% convertible subordinated notes | | (46.9) |
| Redemption of 9.75% senior subordinated notes | **(22.9)** | |
| Repayments of capital lease obligations and other debt, net | **(0.3)** | (38.5) |
| Proceeds from issuance of mandatorily redeemable convertible preferred stock | | 125.0 |
| Issuance costs related to debt and equity offerings | | (14.1) |
| Activity under stock plans | **3.6** | 0.2 |
| Net cash used for financing activities | **(23.7)** | (23.2) |
| Effect of exchange rate changes on cash and cash equivalents | **0.3** | (0.5) |
| Net increase in cash and cash equivalents | **9.8** | 20.7 |
| Cash and cash equivalents at beginning of period | **41.7** | 8.2 |
| Cash and cash equivalents at end of period | **$ 51.5** | $ 28.9 |
| **Supplemental Data:** | | |

| | Unaudited | |
|---|---|---|
| Cash interest paid | **$ 39.7** | $ 44.4 |
| Cash taxes paid | **$ 7.8** | $ 8.3 |

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

**HEXCEL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 1 Basis of Accounting**

The accompanying condensed consolidated financial statements have been prepared from the unaudited records of Hexcel Corporation and its subsidiaries ("Hexcel" or "the Company") in accordance with accounting principles generally accepted in the United States of America and, in the opinion of management, include all normal recurring adjustments necessary to present fairly the balance sheet of the Company as of September 30, 2004, the results of operations for the quarters and nine months ended September 30, 2004 and 2003, and the cash flows for the nine months ended September 30, 2004 and 2003. The condensed consolidated balance sheet of the Company as of December 31, 2003 was derived from the audited 2003 consolidated balance sheet. Certain information and footnote disclosures normally included in financial statements have been omitted pursuant to rules and regulations of the Securities and Exchange Commission. Certain prior period amounts in the condensed consolidated financial statements and accompanying notes have been reclassified to conform to the 2004 presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2003 Annual Report on Form 10-K.

**Note 2 Stock-Based Compensation**

The Company accounts for stock-based compensation 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 awards over the defined vesting periods. As of September 30, 2004, the Company had several on-going stock-based compensation plans that provide for different types of equity awards, including stock options and various forms of restricted stock unit awards.

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 common 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") are as follows:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions, except per share data)** | **2004** | **2003** | **2004** | **2003** |
| **Net income (loss):** | | | | |
| *Net income (loss) available to common shareholders, as reported* | **$ 1.1** | $ (6.1) | **$ 11.8** | $ (8.0) |
| *Add:* Stock-based compensation expense included in reported net income (loss) | **0.4** | 0.2 | **1.1** | 0.7 |
| *Deduct:* Stock-based compensation expense determined under fair value method for all awards | **(1.2)** | (1.0) | **(3.6)** | (3.2) |
| Pro forma net income (loss) | **$ 0.3** | $ (6.9) | **$ 9.3** | $ (10.5) |
| **Net income (loss) per common share:** | | | | |
| Basic net income (loss) per common share: | | | | |
| As reported | **$ 0.03** | $ (0.16) | **$ 0.30** | $ (0.21) |
| Pro forma | **$ 0.01** | $ (0.18) | **$ 0.24** | $ (0.27) |
| Diluted net income (loss) per common share: | | | | |
| As reported | **$ 0.03** | $ (0.16) | **$ 0.23** | $ (0.21) |
| Pro forma | **$ 0.01** | $ (0.18) | **$ 0.20** | $ (0.27) |

No tax benefit was recognized on stock-based compensation expense as the Company establishes a non-cash valuation allowance attributable to currently generated U.S. net operating losses (refer to Note 12). Stock-based compensation expense was not material to European operations.

The weighted average fair value of stock options granted during the nine months ended September 30, 2004 and 2003 was $4.18 and $1.77, respectively, and estimated using the Black- Scholes option pricing model with the following weighted-average assumptions:

| | **2004** | **2003** |
|---|---|---|
| Expected life (in years) | **4** | 4 |
| Interest rate | **4.29%** | 3.12% |
| Volatility | **71.68%** | 78.09% |
| Dividend yield | | |

**Note 3 Inventories**

| (In millions) | September 30, 2004 | December 31, 2003 |
|---|---|---|
| Raw materials | **$ 56.7** | $ 42.9 |
| Work in progress | **36.2** | 35.9 |
| Finished goods | **52.0** | 41.7 |
| Total inventories | **$ 144.9** | $ 120.5 |

**Note 4 Business Consolidation and Restructuring Programs**

The aggregate business consolidation and restructuring liabilities as of September 30, 2004 and December 31, 2003, and activity for the quarter and nine months ended September 30, 2004, consisted of the following:

| (In millions) | Employee Severance | Facility & Equipment | Total |
|---|---|---|---|
| **Balance as of December 31, 2003** | $ 4.2 | $ 1.7 | $ 5.9 |
| Current period expenses | 0.5 | 1.0 | 1.5 |
| Change in estimated expenses | | (0.1) | (0.1) |
| Net business consolidation and restructuring expenses | 0.5 | 0.9 | 1.4 |
| Cash expenditures | (1.3) | (1.5) | (2.8) |
| Currency translation adjustments | (0.1) | | (0.1) |
| **Balance as of June 30, 2004** | $ 3.3 | $ 1.1 | $ 4.4 |
| Current period expenses | **0.2** | **0.5** | **0.7** |
| Change in estimated expenses | **(0.1)** | | **(0.1)** |
| Net business consolidation and restructuring expenses | **0.1** | **0.5** | **0.6** |
| Cash expenditures | **(0.4)** | **(0.6)** | **(1.0)** |
| Currency translation adjustments | **0.2** | | **0.2** |
| **Balance as of September 30, 2004** | **$ 3.2** | **$ 1.0** | **$ 4.2** |

*Livermore Program*

In the first quarter of 2004, the Company announced its intent to consolidate the activities of its Livermore, California facility into other operations, principally the Salt Lake City, Utah plant. This business consolidation and restructuring action is accounted for under Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which 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. In addition, if terminated employees are required to render services beyond a minimum retention period in order to receive termination benefits, a liability for the termination benefits shall be measured initially at the communication date based on fair value and recognized ratably over the service period. For the quarter and nine months ended September 30, 2004, the Company recognized $0.2 million and $0.6 million of expense, respectively, for employee severance based on the remaining employee

service periods. Costs associated with the facility's closure, along with costs for relocation and re-qualification of equipment, are expected to occur over several years.

Business consolidation and restructuring liabilities as of September 30, 2004 and December 31, 2003, and activity of the Livermore program for the quarter and nine months ended September 30, 2004, consisted of the following:

| (In millions) | Employee Severance | Facility & Equipment | Total |
|---|---|---|---|
| **Balance as of December 31, 2003** | $ | $ | $ |
| Business consolidation and restructuring expenses | 0.4 | | 0.4 |
| **Balance as of June 30, 2004** | $ 0.4 | $ | $ 0.4 |
| Business consolidation and restructuring expenses | **0.2** | | **0.2** |
| **Balance as of September 30, 2004** | **$ 0.6** | **$** | **$ 0.6** |

*November 2001 Program*

In November 2001, the Company announced a program to restructure its business operations as a result of its revised business outlook for build rate reductions in commercial aircraft production and due to depressed business conditions in the electronics market. For the quarter and nine months ended September 30, 2004, the Company recognized business consolidation and restructuring expenses of $0.4 million and $1.4 million, respectively, related to this program for equipment relocation and re-qualification costs that are expensed as incurred.

Business consolidation and restructuring liabilities as of September 30, 2004 and December 31, 2003, and activity of the November 2001 program for the quarter and nine months ended September 30, 2004, consisted of the following:

| (In millions) | Employee Severance | Facility & Equipment | Total |
|---|---|---|---|
| **Balance as of December 31, 2003** | $ 4.2 | $ 1.7 | $ 5.9 |
| Current period expenses | 0.1 | 1.0 | 1.1 |
| Change in estimated expenses | | (0.1) | (0.1) |
| Net business consolidation and restructuring expenses | 0.1 | 0.9 | 1.0 |
| Cash expenditures | (1.3) | (1.5) | (2.8) |
| Currency translation adjustments | (0.1) | | (0.1) |
| **Balance as of June 30, 2004** | $ 2.9 | $ 1.1 | $ 4.0 |
| Current period expenses | | **0.5** | **0.5** |
| Change in estimated expenses | **(0.1)** | | **(0.1)** |
| Net business consolidation and restructuring expenses | **(0.1)** | **0.5** | **0.4** |
| Cash expenditures | **(0.4)** | **(0.6)** | **(1.0)** |
| Currency translation adjustments | **0.2** | | **0.2** |
| **Balance as of September 30, 2004** | **$ 2.6** | **$ 1.0** | **$ 3.6** |

**Note 5 Notes Payable and Capital Lease Obligations**

| (In millions) | September 30, 2004 | December 31, 2003 |
| --- | --- | --- |
| Senior secured credit facility, due 2008 | **$** | $ 4.0 |
| European credit and overdraft facilities | **1.7** | 1.9 |
| 9.875% senior secured notes, due 2008, net of unamortized discount of $0.9 as of September 30, 2004 and $1.1 as of December 31, 2003 | **124.1** | 123.9 |
| 9.75% senior subordinated notes, due 2009, net of unamortized discount of $0.7 as of September 30, 2004 and $1.0 as of December 31, 2003(a) | **306.7** | 328.5 |
| 7.0% convertible subordinated debentures, due 2011 | **21.0** | 21.0 |
| Total notes payable | **453.5** | 479.3 |
| Capital lease obligations | **3.9** | 4.1 |
| Total notes payable and capital lease obligations | **$ 457.4** | $ 483.4 |
| Notes payable and current maturities of long-term liabilities | **$ 3.8** | $ 2.1 |
| Long-term notes payable and capital lease obligations, less current maturities | **453.6** | 481.3 |
| Total notes payable and capital lease obligations | **$ 457.4** | $ 483.4 |

(a) Includes a decrease of $0.8 million at September 30, 2004 and a decrease of $0.5 million at December 31, 2003 for derivative contracts. During the fourth quarter of 2003, the Company entered into interest rate swap agreements for an aggregate notional amount of $100.0 million, effectively converting the fixed interest rate of 9.75% into variable interest rates (see Note 11).

*Senior Secured Credit Facility, due 2008*

As of September 30, 2004, the Company had no borrowings under this facility. Under this facility, Hexcel is able to issue letters of credit up to a sub-limit of $50.0 million, subject to availability. At September 30, 2004, Hexcel had issued letters of credit totaling $23.2 million, of which $11.1 million supported a loan to the Company's BHA Aero Composite Parts Co., Ltd. joint venture in China. In addition, the Company had standby letters of credit of $1.8 million outstanding at September 30, 2004 that were separate from this facility.

*French Factoring Facility*

The Company has an existing accounts receivable factoring facility with a third party to provide an additional 20.0 million Euros in borrowing capacity. As of September 30, 2004, the Company did not have any accounts receivable factored under this facility.

*Repurchase of Senior Subordinated Notes, due 2009*

During the nine months ended September 30, 2004, the Company repurchased $21.8 million principal amount of its 9.75% senior subordinated notes, due 2009, through open market purchases, incurring losses of $1.6 million on the early retirement of debt (see Note 8). No such repurchases were made in the third quarter of 2004.

**Note 6 Retirement and Other Postretirement Benefit Plans**

Hexcel maintains qualified and nonqualified defined benefit retirement plans covering certain current and former U.S. and European employees and directors, retirement savings plans covering eligible U.S. employees and certain postretirement health care and life insurance benefit plans covering eligible U.S. retirees. The Company also participates in a union sponsored multi-employer pension plan covering certain U.S. employees with union affiliations. Refer to the Company's 2003 Annual Report on Form 10-K for further information regarding these plans.

***Defined Benefit Retirement Plans***

*Net Periodic Benefit Costs*

Net periodic benefit costs of Hexcel's defined benefit retirement plans for the quarters and nine months ended September 30, 2004 and 2003, were as follows:

| (in millions) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **U.S. Defined Benefit Retirement Plans** | **2004** | **2003** | **2004** | **2003** |
| Service cost | **$ 0.3** | $ 0.2 | **$ 0.7** | $ 0.6 |
| Interest cost | **0.4** | 0.5 | **1.3** | 1.3 |
| Expected return on plan assets | **(0.2)** | (0.2) | **(0.8)** | (0.8) |
| Net amortization and deferral | **0.3** | 0.1 | **0.8** | 0.5 |
| Sub-total | **0.8** | 0.6 | **2.0** | 1.6 |
| Curtailment and settlement loss | **0.1** | 0.2 | **0.5** | 0.6 |
| Net periodic benefit costs | **$ 0.9** | $ 0.8 | **$ 2.5** | $ 2.2 |
| **European Defined Benefit Retirement Plans** | | | | |
| Service cost | **$ 0.6** | $ 0.4 | **$ 1.8** | $ 1.4 |
| Interest cost | **1.1** | 1.0 | **3.5** | 3.0 |
| Expected return on plan assets | **(1.1)** | (0.9) | **(3.5)** | (2.8) |
| Net amortization and deferral | **0.4** | 0.3 | **1.2** | 0.8 |
| Sub-total | **1.0** | 0.8 | **3.0** | 2.4 |
| Curtailment and settlement gain | | | | |
| Net periodic benefit costs | **$ 1.0** | $ 0.8 | **$ 3.0** | $ 2.4 |

*Contributions*

The Company contributed $0.4 million and $0.5 million to its U.S. qualified and nonqualified defined benefit retirement plans in each of the quarters ended September 30, 2004 and 2003, respectively. Contributions were $1.3 million and $1.1 million for the nine months ended September 30, 2004 and 2003, respectively. Although no minimum funding contributions are required, the Company intends to contribute approximately $1.6 million during 2004 to its U.S. qualified pension plan to fund expected lump sum payments. The Company generally funds its U.S. nonqualified defined benefit retirement plans when benefit payments are incurred. Under the provisions of these nonqualified plans, the Company expects to contribute approximately $0.3 million in 2004 to cover unfunded benefits. The Company contributed $1.9 million to its U.S. defined benefit retirement plans during its 2003 fiscal year.

In addition, the Company contributed $0.9 million and $0.8 million to its European defined benefit retirement plans during the third quarter of 2004 and 2003, respectively. Total contributions were $2.7 million and $2.5 million for the nine months ended September 30, 2004 and 2003, respectively. Meeting governing requirements, the Company is required to contribute approximately $2.3 million during 2004 to its European plans. The Company contributed $2.0 million to its European plans during its 2003 fiscal year.

***Postretirement Health Care and Life Insurance Benefit Plans***

*Net Periodic Postretirement Benefit Costs*

Net periodic postretirement benefit costs of Hexcel's postretirement health care and life insurance benefit plans for the quarters and nine months ended September 30, 2004 and 2003, were as follows:

| **(in millions)**<br>**Postretirement Plans** | **Quarter Ended September 30,** 2004 | **Quarter Ended September 30,** 2003 | **Nine Months Ended September 30,** 2004 | **Nine Months Ended September 30,** 2003 |
|---|---|---|---|---|
| Service cost | **$ 0.1** | $ | **$ 0.2** | $ 0.1 |
| Interest cost | **0.2** | 0.3 | **0.8** | 0.7 |
| Net amortization and deferral | | (0.1) | | (0.3) |
| Net periodic postretirement benefit costs | **$ 0.3** | $ 0.2 | **$ 1.0** | $ 0.5 |

*Contributions*

The Company contributed $0.4 million and $0.5 million to its postretirement health care and life insurance benefit plans during the quarters ended September 30, 2004 and 2003, respectively. Contributions were $1.4 million for both the nine months ended September 30, 2004 and 2003. The Company periodically funds its postretirement plans to pay covered expenses as they are incurred. Under the provisions of these postretirement plans, the Company expects to contribute approximately $1.8 million in 2004 to cover unfunded benefits. The Company contributed $1.7 million to its postretirement plans during its 2003 fiscal year.

*Medicare Prescription Drug, Improvement and Modernization Act*

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") became law. The Act, among other things, introduces a prescription drug benefit under Medicare and a non-taxable federal subsidy paid to sponsors of postretirement benefit plans that provide retirees with a drug benefit at least "actuarially equivalent" to these new benefits under Medicare. In May 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FAS 106-2"), which provides guidance on the accounting for the effects of the Act to employers that sponsor postretirement health care benefit plans that provide prescription drugs. The Company has reviewed the impact of FAS 106-2 on its postretirement benefit plans and has concluded that the enactment of the Act was not a significant event for its plans. As such, the effects of the Act will be incorporated in the valuation to be performed at the Company's next plan valuation date of December 31, 2004.

**Note 7 Other Income (Expense), Net**

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2004** | **2003** | **2004** | **2003** |
| Gain on sale of assets | **$** | $ 0.4 | **$ 4.0** | $ 2.2 |
| Accrual for certain legal matters | **(1.5)** | | **(7.0)** | |
| **Other income (expense), net** | **$ (1.5)** | $ 0.4 | **$ (3.0)** | $ 2.2 |

During the second quarter of 2004, the Company recorded a $5.5 million accrual for the potential settlement of the carbon fiber federal class action case previously disclosed. The accrual was based upon a cash settlement offer made to the plaintiffs and the expectation that the offer sufficiently narrowed the range between the offer and an amount that the plaintiffs would realistically accept. During the third quarter of 2004, discussions with the plaintiffs continued and on September 30, 2004, the Company entered into a stipulation of settlement in the case for $7.0 million. As a result, during the third quarter of 2004, the Company recorded an additional $1.5 million accrual, increasing the accrual balance at September 30, 2004 to $7.0 million. The settlement remains subject to court approval.

During the second quarter of 2004, the Company sold surplus land at one of its U.S. facilities for net cash proceeds of $6.5 million and recognized a $4.0 million gain on the sale.

During the second quarter and third quarter of 2003, the Company sold certain assets of its Structures business segment for net cash proceeds of $3.0 million and $2.7 million, respectively. In connection with the sales, the Company recognized a net gain of $1.8 million in the second quarter of 2003 and a net gain of $0.4 million in the third quarter of 2003.

**Note 8 Non-Operating Income (Expense), Net**

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2004 | 2003 | 2004 | 2003 |
| Gain relating to de-mutualization of an insurance company | $ | $ | $ 1.0 | $ |
| Gain on expiration of contingent liability | | | | 1.4 |
| Losses on early retirement of debt | | | (1.6) | (4.0) |
| **Non-operating income (expense), net** | $ | $ | $ (0.6) | $ (2.6) |

During the first quarter of 2004, the Company became aware of an existing asset custodial account created upon the de-mutualization of an insurance company in December 2001. Assets distributed to the custodial account resulted from the existence of certain group life insurance, disability and dental plans insured by the de-mutualized company. The assets held in the account will be used to defray a portion of future funding requirements associated with these plans. In connection therewith, the Company recognized a gain of $0.6 million in the first quarter of 2004. During the second quarter of 2004, the Company sold the underlying securities obtained through the de-mutualization recognizing an additional gain of $0.4 million.

During the first six months of 2004, the Company repurchased $21.8 million principal amount of its 9.75% senior subordinated notes, due 2009, recognizing losses of $1.6 million on the early retirement of debt. The losses resulted from market premiums paid, as well as the write-off of related unamortized deferred financing costs and original issuance discount.

During the second quarter of 2003, the Company recognized a $1.4 million gain attributable to a prior business sale, which occurred in April 2000. Pursuant to the sale agreement, Hexcel retained a contingent obligation for certain customer warranty claims, which expired in the second quarter of 2003. As a result, the Company reversed the $1.4 million contingent liability established at the time of the sale.

In connection with its refinancing of its capital structure in the first quarter of 2003, the Company incurred a $4.0 million loss on early retirement of debt due to the write-off of unamortized deferred financing costs relating to the former senior credit facility and the 7% convertible subordinated notes due 2003. Refer to the Company's 2003 Annual Report on Form 10-K for further information on the refinancing transactions.

**Note 9 Net Income (Loss) Per Common Share**

| (In millions, except per share data) | Quarter Ended September 30, 2004 | Quarter Ended September 30, 2003 | Nine Months Ended September 30, 2004 | Nine Months Ended September 30, 2003 |
|---|---|---|---|---|
| ***Basic net income (loss) per common share:*** | | | | |
| Net income (loss) | **$ 4.3** | $ (3.0) | **$ 21.2** | $ (1.4) |
| Deemed preferred dividends and accretion | **(3.2)** | (3.1) | **(9.4)** | (6.6) |
| Net income (loss) available to common shareholders | **$ 1.1** | $ (6.1) | **$ 11.8** | $ (8.0) |
| Weighted average common shares outstanding | **39.4** | 38.7 | **39.2** | 38.6 |
| ***Basic net income (loss) per common share*** | **$ 0.03** | $ (0.16) | **$ 0.30** | $ (0.21) |
| ***Diluted net income (loss) per common share:*** | | | | |
| Net income (loss) | **$ 4.3** | $ (3.0) | **$ 21.2** | $ (1.4) |
| Deemed preferred dividends and accretion | **(3.2)** | (3.1) | **(9.4)** | (6.6) |
| Net income (loss) available to common shareholders | **$ 1.1** | $ (6.1) | **$ 11.8** | $ (8.0) |
| *Plus:* Deemed preferred dividends and accretion | | | **9.4** | |
| Net income (loss) available to common shareholders Plus assumed conversions | **$ 1.1** | $ (6.1) | **$ 21.2** | $ (8.0) |
| Weighted average common shares outstanding Basic | **39.4** | 38.7 | **39.2** | 38.6 |
| *Plus incremental shares from assumed conversions:* | | | | |
| Restricted stock units | **0.4** | | **0.4** | |
| Stock options | **2.8** | | **2.1** | |
| Mandatorily redeemable convertible preferred stock | | | **49.8** | |
| Weighted average common shares outstanding Dilutive | **42.6** | 38.7 | **91.5** | 38.6 |
| **Diluted net income (loss) per common share** | **$ 0.03** | $ (0.16) | **$ 0.23** | $ (0.21) |

The assumed conversion of the Company's convertible subordinated debentures, due 2011, (exchangeable for 0.7 million common shares) was excluded from the computations of diluted net income (loss) per common share for all periods, as it was antidilutive.

The assumed conversion of the Company's mandatorily redeemable convertible preferred stock (convertible into 49.8 million common shares) was excluded from the computations of diluted net income (loss) per common share for the third quarters of 2004 and 2003 and for the nine months of 2003, as it was antidilutive. In addition, the Company's convertible subordinated notes, due 2003, were excluded from the computation of diluted net income (loss) per common share for the quarter and nine months ended September 30, 2003, as it was antidilutive. The convertible subordinated notes, due 2003, were repaid in full on March 19, 2003.

Approximately 3.2 million and 2.5 million shares underlying outstanding stock options and restricted stock units were included in the computation of diluted net income (loss) per common share for the third quarter and nine months ended September 30, 2004, respectively. The assumed conversions of a remaining 0.5 million shares and 4.4 million shares underlying outstanding stock options were excluded from the computations of diluted net income (loss) per common share for

the third quarter and nine months ended September 30, 2004, respectively, as they were antidilutive.

For the third quarter and nine months ended September 30, 2003, all 9.2 million and 8.6 million shares, respectively, underlying outstanding stock options and restricted stock units were excluded from the computation of diluted net income (loss) per common share, as they were antidilutive.

**Note 10 Comprehensive Income**

Comprehensive income represents net income (loss) and other gains and losses affecting shareholders' equity (deficit) that are not reflected in the condensed consolidated statements of operations. The components of comprehensive income for the quarters and nine months ended September 30, 2004 and 2003 were as follows:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2004** | **2003** | **2004** | **2003** |
| Net income (loss) available to common shareholders | **$ 1.1** | $ (6.1) | **$ 11.8** | $ (8.0) |
| Currency translation adjustments | **3.7** | 2.0 | **(2.0)** | 13.5 |
| Increase (decrease) in net unrealized gains on financial instruments | **(0.8)** | (0.3) | **(4.8)** | 2.0 |
| **Comprehensive income** | **$ 4.0** | $ (4.4) | **$ 5.0** | $ 7.5 |

**Note 11 Derivative Financial Instruments**

*Interest Rate Swap Agreements*

In October 2003, the Company entered into interest rate swap agreements for an aggregate notional amount of $100.0 million. The interest rate swap agreements effectively convert the fixed interest rate of 9.75% on $100.0 million of the Company's senior subordinated notes, due 2009, into variable interest rates. The variable interest rates payable by the Company in connection with the swap agreements range from LIBOR + 6.12% to LIBOR + 6.16%, and are reset semiannually on January 15 and July 15 of each year the swap agreements are in effect. Interest payment dates under the swap agreements of January 15 and July 15 match the interest payment dates set by the senior subordinated notes. The interest rate swap agreements mature on January 15, 2009, the maturity date of the senior subordinated notes. The swap agreements are cancelable at the option of the fixed rate payer under terms that mirror the call provisions of the senior subordinated notes due 2009. The interest rate swap agreements are designated as fair value hedges, and are highly effective as assessed using the short-cut method under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." For the quarter and nine months ended September 30, 2004, the effective element of changes in fair value of $0.4 million and $1.6 million were recognized as a reduction in "interest expense," respectively. The aggregate fair value and carrying amount of these swap agreements, as of September 30, 2004, was a $0.8 million decrease in notes payable.

*Cross-Currency Interest Rate Swap Agreement*

In April 2003, the Company entered into a cross-currency interest rate swap agreement, which effectively exchanges a loan of 12.5 million Euros at a fixed rate of 7% for a loan with a notional amount of $13.5 million at a fixed rate of 6.02% over the term of the agreement expiring December 1, 2007. The Company entered into this agreement to effectively hedge interest and principal payments relating to an intercompany loan denominated in Euros. The fair value and carrying amount of this swap agreement as of September 30, 2004 was a $2.4 million liability. During the quarters and nine months ended September 30, 2004 and 2003, hedge ineffectiveness was immaterial. The change in fair value recognized in "comprehensive income" was a net increase of $0.2 million for the quarter ended September 30, 2004. There was no change in fair value for the third quarter ended September 30, 2003. There was no change in the fair value for the nine months ended September 30, 2004. The change in fair value recognized in "comprehensive income" was a net reduction of $0.4 million for the nine months ended September 30, 2003. Over the next twelve months, no material unrealized losses recorded in "accumulated other comprehensive loss" relating to this agreement are expected to be reclassified into earnings.

*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. To minimize this exposure, Hexcel has entered into a number of foreign currency forward exchange contracts to exchange U.S. dollars for Euros and British Pound Sterling at fixed rates on specified dates through December 2005. The aggregate notional amount of these contracts was $30.6 million and $62.9 million at September 30, 2004 and December 31, 2003, 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 some, but not all of the Company's exposure to fluctuations in currency exchange rates. The value of foreign currency forward exchange contracts the Company has in place for 2005 is lower than those it has had in place in 2004 and these hedges are set at higher exchange rates. The Company therefore anticipates that the benefits from such hedging will be smaller in 2005 than it has received in 2004. For the quarters and nine months ended September 30, 2004 and 2003, hedge ineffectiveness was immaterial.

The activity in "accumulated other comprehensive income (loss)" related to foreign currency forward exchange contracts for the quarters and nine months ended September 30, 2004 and 2003 was as follows:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2004** | **2003** | **2004** | **2003** |
| **Unrealized gains at beginning of period** | **$ 2.6** | $ 6.1 | **$ 6.4** | $ 3.4 |
| Gains reclassified to net sales | **(1.6)** | (1.2) | **(5.0)** | (2.6) |
| Increase (decrease) in fair value | **0.6** | 0.9 | **0.2** | 5.0 |
| **Unrealized gains at end of period** | **$ 1.6** | $ 5.8 | **$ 1.6** | $ 5.8 |

Unrealized gains of $1.6 million recorded in "accumulated other comprehensive income," net of tax, as of September 30, 2004 are expected to be reclassified into earnings over the next twelve months as the hedged sales are recorded.

**Note 12 Taxes**

The Company's tax provision for the quarters and nine months ended September 30, 2004 and 2003 was primarily for taxes on European income. The Company will continue to adjust its tax provision rate through the establishment, or release, of a non-cash valuation allowance attributable to all currently generated U.S. and Belgian net operating income (losses) until such time as the U.S. and Belgian operations, respectively, generate sufficient taxable income to utilize the net operating losses in full.

The U.S. and foreign components of income before income taxes and the provision for income taxes for the quarters and nine months ended September 30, 2004 and 2003 were as follows:

| | Quarter Ended September 30, 2004 | | | Nine Months Ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | **U.S.** | **Foreign** | **Total** | **U.S.** | **Foreign** | **Total** |
| Income before income taxes | **$ 4.6** | **$ 2.0** | **$ 6.6** | **$ 14.2** | **$ 17.1** | **$ 31.3** |
| Provision for income taxes | **0.4** | **1.9** | **2.3** | **1.2** | **9.7** | **10.9** |
| Income before equity in earnings (losses) of affiliated companies | **$ 4.2** | **$ 0.1** | **$ 4.3** | **$ 13.0** | **$ 7.4** | **$ 20.4** |

| | Quarter Ended September 30, 2003 | | | Nine Months Ended September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | **U.S.** | **Foreign** | **Total** | **U.S.** | **Foreign** | **Total** |
| Income (loss) before income taxes | $ (2.1) | $ 0.1 | $ (2.0) | $ (6.7) | $ 12.3 | $ 5.6 |
| Provision for income taxes | 0.1 | 0.6 | 0.7 | 0.4 | 5.5 | 5.9 |
| Income (loss) before equity in earnings (losses) of affiliated companies | $ (2.2) | $ (0.5) | $ (2.7) | $ (7.1) | $ 6.8 | $ (0.3) |

*Net Operating Loss Carryforwards*

As of September 30, 2004, Hexcel had net operating loss carryforwards for U.S. federal and Belgian income tax purposes of approximately $136.6 million and $8.7 million, respectively. On March 19, 2003, the Company completed a refinancing of its capital structure which included the issuance of the Company's mandatorily redeemable convertible preferred stock (convertible into 49.8 million common shares). As a result, the Company had 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 to $5.3 million per annum. The Company's U.S. net operating losses expire beginning 2019 and through 2022. The Company's Belgian net operating losses can be carried forward without limitation.

**Note 13 Investments in Affiliated Companies**

The Company has equity ownership investments in three Asian and one U.S. joint venture. In connection therewith, the Company has considered the accounting and disclosure requirements of Financial Interpretation No. 46R "Consolidation of Variable Interest Entities," and believes that certain of these investments would be considered "variable interest entities." However, the Company believes that it is not the primary beneficiary of such entities, and therefore, would not be required to consolidate these entities in its accounts.

In 1999, Hexcel, Boeing International Holdings, Ltd. and 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. Revenues of BHA Aero for the last twelve months ended September 30, 2004 were $11.3 million. 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 Berhad), 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. Revenues of Asian Composites for the last twelve months ended September 30, 2004 were $13.9 million. Manufacturing activities of both BHA Aero and Asian Composites continue to ramp up as composite component manufacturing is transferred to them. As of September 30, 2004, Hexcel had a zero net equity investment balance related to these joint ventures and an aggregate receivable balance of $3.8 million.

Each of the equity owners of BHA Aero, including the Company, has an obligation to support a third party loan on a proportionate basis to their equity ownership interest. The Company has met its obligation through an outstanding letter of credit of $11.1 million. BHA Aero's third party loans come due in 2004. During the third quarter of 2004, Hexcel made $3.0 million in advance payments relating to its purchases of products manufactured by BHA Aero to assist in their short term cash flow needs. The Boeing Company, in turn, made a $1.5 million advance payment to Hexcel for the purchase of products produced by Hexcel from the products it purchases from BHA Aero. During 2004, BHA Aero and its equity owners have been in detailed discussions as to the refinancing of its loans and a re-capitalization of this joint venture. The maturities of the existing third party loans have been extended to facilitate these discussions. Hexcel and Boeing International Holdings, Ltd. have each agreed to purchase for $7.5 million in cash newly issued registered capital of BHA Aero

resulting in an increase in each of their respective equity ownership interests to 40.48%. This investment is contingent on receiving the required government approvals. Following such approval, and the cash equity investment, BHA Aero will refinance its outstanding bank loans with a new five year bank term loan. As part of this refinancing, Hexcel will enter into guarantee arrangements with Boeing International Holdings, Ltd. and China Aviation Industry Corporation I with a value not to exceed $6.1 million. Upon completion of BHA Aero's bank refinancing, Hexcel's standby letter of credit of $11.1 million will be cancelled and will not be replaced. Depending on the timing of receiving necessary government approvals, the recapitalization and refinancing are anticipated to be complete either in the fourth quarter of 2004 or the first quarter of 2005. As of September 30, 2004, apart from its accounts receivable balances, the advance payment on the purchase of products, the letter of credit supporting the third party loan to BHA Aero and its remaining investment in these ventures, Hexcel has no other significant exposures to loss with BHA Aero and Asian Composites.

As part of an acquisition in 1998, the Company obtained a 50% equity ownership interest in TechFab LLC ("TechFab"), a Reinforcements joint venture that manufactures non-woven reinforcement materials for construction, roofing, sail cloth and other specialty applications. Revenues of TechFab for the last twelve months ended September 30, 2004 were $27.6 million. At September 30, 2004, Hexcel had an equity investment balance in TechFab of $6.7 million. Hexcel has no other significant exposures to loss with this joint venture.

Lastly, Hexcel owns a 45.3% equity interest in DIC-Hexcel Limited ("DHL"), a joint venture formed in 1990 with Dainippon Ink and Chemicals, Inc. ("DIC"). This joint venture is located in Japan, and produces and sells prepregs, honeycomb and decorative laminates using technology licensed from Hexcel and DIC. Revenues of DHL for the last twelve months ended September 30, 2004 were $10.6 million. Due to DHL's recognition of net losses in prior years, no equity investment balance remains for DHL at September 30, 2004. Hexcel has no significant exposures to loss with this joint venture.

**Note 14 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. In addition, the Company periodically reviews its warranty accrual and records any adjustments as deemed appropriate. Warranty expense for the quarter and nine months ended September 30, 2004 and accrued warranty cost, included in "other accrued liabilities" in the condensed consolidated balance sheets at September 30, 2004 and December 31, 2003, were as follows:

| (In millions) | Product Warranties |
|---|---|
| **Balance as of December 31, 2003** | $ 5.0 |
| Warranty expense | 2.9 |
| Deductions and other | (1.5) |
| **Balance as of June 30, 2004** | $ 6.4 |
| Warranty expense | **0.1** |
| Deductions and other | **(1.0)** |
| **Balance as of September 30, 2004** | **$ 5.5** |

**Note 15 Segment Information**

The financial results for Hexcel's business segments are prepared using a management approach, which is consistent with the basis and manner in which Hexcel management internally segregates financial information for management's use in making internal operating decisions. Hexcel evaluates the performance of its operating segments based on operating income, and generally accounts for intersegment sales based on arm's length prices. Corporate and certain other expenses are not allocated to the operating segments, except to the extent that the expense can be directly attributable to the business segment. Financial information for the Company's segments for the quarters and nine months ended September 30, 2004 and 2003 is as follows:

| (In millions) | Reinforcements | Composites | Structures | Corporate & Other | Total |
|---|---|---|---|---|---|
| | | | Unaudited | | |
| **Third Quarter 2004** | | | | | |
| Net sales to external customers | $ 84.4 | $ 161.2 | $ 17.5 | $ | $ 263.1 |
| Intersegment sales | 25.2 | 4.9 | | | 30.1 |
| Total sales | 109.6 | 166.1 | 17.5 | | 293.2 |
| Operating income (loss) | 9.9 | 19.1 | 1.0 | (11.4) | 18.6 |
| Depreciation | 3.9 | 8.0 | 0.5 | | 12.4 |
| Business consolidation and restructuring expenses | | | | | |