

HEXCEL CORP /DE/  
Form 10-Q/A  
July 10, 2003

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q/A**

(Amendment No. 1)

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

For the Quarter Ended March 31, 2003

or

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

For the transition period from to

Commission File Number 1-8472

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# Hexcel Corporation

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

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

**Two Stamford Plaza**

**281 Tresser Boulevard**

**Stamford, Connecticut 06901-3238**

(Address of principal executive offices and zip code)

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

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

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

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

Class	Outstanding at July 7, 2003
COMMON STOCK	38,632,738

**HEXCEL CORPORATION AND SUBSIDIARIES**

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*EXPLANATORY NOTE*

The purpose of this Amendment No. 1 to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2003 is to include Note 15 Supplemental Guarantor Information to the consolidated financial statements of Hexcel Corporation pursuant to Rule 3-10 of Regulation S-X. This amendment consists solely of a cover page, this explanatory note, the information required by Item 1 of Part I of Form 10-Q, Financial Statements, the information required by Item 6 of Part II, Exhibits and Reports on Form 8-K, a signature page, and the chief executive officer and chief financial officer certifications required to be included herein. In accordance with Rule 12b-15 promulgated pursuant to the Securities Exchange Act of 1934, the complete text of Item 1 of Part I and Item 6 of Part II, as amended, is included herein. However, with respect to Item 1 of Part I, no changes have been made other than the inclusion of Note 15 to the consolidated financial statements of Hexcel Corporation, and with respect to Item 6 of Part II, no changes have been made and such section is included herein solely to file the required chief executive officer and chief financial officer certifications.

## PART I. FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements

Hexcel Corporation and Subsidiaries  
Condensed Consolidated Balance Sheets

(In millions, except per share data)	March 31, 2003 Unaudited	December 31, 2002
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13.1	\$ 8.2
Accounts receivable, net	141.0	117.3
Inventories, net	126.6	113.6
Prepaid expenses and other assets	9.6	9.2
Total current assets	290.3	248.3
Property, plant and equipment	644.6	642.8
Less accumulated depreciation	(342.4)	(333.4)
Net property, plant and equipment	302.2	309.4
Goodwill, net	75.1	74.4
Investments in affiliated companies	33.6	34.0
Other assets	44.9	42.0
Total assets	\$ 746.1	\$ 708.1
<b>Liabilities and Stockholders Equity (Deficit)</b>		
Current liabilities:		
Notes payable and current maturities of capital lease obligations	\$ 9.0	\$ 621.7
Accounts payable	73.9	54.9
Accrued liabilities	87.4	102.5
Total current liabilities	170.3	779.1
Long-term notes payable and capital lease obligations	522.9	
Other non-current liabilities	58.5	56.4
Total liabilities	751.7	835.5
Mandatorily redeemable convertible preferred stock, 0.125 shares of series A and 0.125 shares of series B authorized, issued and outstanding at March 31, 2003	96.9	
Stockholders equity (deficit):		

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Preferred stock, no par value, 20.0 shares authorized, no shares issued or outstanding at March 31, 2003 and at December 31, 2002

Common stock, \$0.01 par value, 200.0 shares of stock authorized, and 39.9 shares issued and outstanding at March 31, 2003, and 100.0 shares of stock authorized, and 39.8 shares issued and outstanding at December 31, 2002

	<b>0.4</b>	0.4
Additional paid-in capital	<b>311.7</b>	288.2
Accumulated deficit	<b>(384.7)</b>	(381.5)
Accumulated other comprehensive loss	<b>(16.4)</b>	(21.2)
	<b>(89.0)</b>	(114.1)
Less Treasury stock, at cost, 1.3 shares at March 31, 2003 and at December 31, 2002	<b>(13.5)</b>	(13.3)
Total stockholders' equity (deficit)	<b>(102.5)</b>	(127.4)
Total liabilities and stockholders' equity (deficit)	<b>\$ 746.1</b>	\$ 708.1

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



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

(In millions, except per share data)

Quarter Ended March 31,  
2003                      Unaudited                      2002

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Net sales	\$	228.6	\$	222.1
Cost of sales		182.6		182.5
Gross margin		46.0		39.6
Selling, general and administrative expenses		23.8		21.6
Research and technology expenses		4.3		4.0
Business consolidation and restructuring expenses		0.7		0.7
Operating income		17.2		13.3
Interest expense		13.7		17.6
Loss on the early retirement of debt		4.0		
Loss before income taxes		(0.5)		(4.3)
Provision for income taxes		2.3		2.5
Loss before equity in earnings		(2.8)		(6.8)
Equity in losses of affiliated companies		(0.4)		(2.4)
Net loss		(3.2)		(9.2)
Deemed preferred dividends and accretion		(0.5)		
Net loss available to common shareholders	\$	(3.7)	\$	(9.2)
Net loss per common share:				
Basic	\$	(0.10)	\$	(0.24)
Diluted	\$	(0.10)	\$	(0.24)
Weighted average common shares outstanding:				
Basic		38.5		38.2
Diluted		38.5		38.2

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

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

(In millions)	Quarter Ended March 31,	
	2003	2002
	Unaudited	
<b>Cash flows from operating activities</b>		
Net loss	\$ (3.2)	\$ (9.2)
Reconciliation to net cash used for operating activities:		
Depreciation	12.5	11.8
Amortization of debt discount and deferred financing costs	1.0	1.0
Deferred income taxes	0.2	0.2
Business consolidation and restructuring expenses	0.7	0.7
Business consolidation and restructuring payments	(2.8)	(9.4)
Equity in losses of affiliated companies	0.4	2.4
Loss on early retirement of debt	4.0	
Working capital changes and other	(25.4)	(8.6)
Net cash used for operating activities	(12.6)	(11.1)
<b>Cash flows from investing activities</b>		
Capital expenditures	(2.3)	(1.8)
Net cash used for investing activities	(2.3)	(1.8)
<b>Cash flows from financing activities</b>		
Proceeds from senior secured credit facilities, net	12.0	
Proceeds from issuance of 9-7/8% senior secured notes, net of discount	123.7	
Proceeds from (repayments of) senior credit facility, net	(179.7)	8.2
Redemption of 7% convertible subordinated notes, due 2003	(46.9)	
Proceeds from (repayments of) capital lease obligations and other debt, net	1.0	(1.9)
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	0.1	0.1
Net cash provided by financing activities	21.1	6.4
Effect of exchange rate changes on cash and cash equivalents	(1.3)	(1.4)
Net increase (decrease) in cash and cash equivalents	4.9	(7.9)
Cash and cash equivalents at beginning of quarter	8.2	11.6
Cash and cash equivalents at end of quarter	\$ 13.1	\$ 3.7
<b>Supplemental Data:</b>		
Cash interest paid	\$ 24.5	\$ 25.6
Cash taxes paid	\$ 2.8	\$ 1.0

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



**HEXCEL CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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 adjustments necessary to present fairly the balance sheet of the Company as of March 31, 2003 and the results of operations and cash flows for the quarters ended March 31, 2003 and 2002. The condensed consolidated balance sheet of the Company as of December 31, 2002 was derived from the audited 2002 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 2003 presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2002 Annual Report on Form 10-K/A (Amendment No. 2).

**Note 2 Refinancing of Capital Structure**

On March 19, 2003, the Company completed the refinancing of its balance sheet with the issuance of mandatorily redeemable convertible preferred stock for \$125.0 million in cash, the issuance of \$125.0 million principal amount of 9-7/8% senior secured notes due 2008, and the establishment of a new \$115.0 million senior secured credit facility due 2008. The proceeds from the sale of the convertible preferred stock have been used to provide for the redemption of the Company s 7% convertible subordinated notes due 2003 and to reduce senior debt outstanding under the Company s then existing senior credit facility. The remaining advances under the then existing senior credit facility, after the application of the equity proceeds, were repaid with proceeds from the issuance of the 9-7/8% senior secured notes due 2008 and modest drawings under the new senior secured credit facility. In connection with the refinancing, 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 Notes 6 and 7 for further information on the refinancing transactions.

**Note 3 - 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 plans over the defined vesting periods. As of March 31, 2003, the Company had several on-going stock-based compensation plans, including stock options, restricted stock 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 loss and net 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 ) for the quarters ended March 31, 2003 and 2002 are as follows:

(in millions, except per share data)	3/31/03	3/31/02
<b>Net loss:</b>		
Net loss available to common shareholders, as reported	\$ (3.7)	\$ (9.2)
<i>Add:</i> Stock-based compensation expense included in reported net income	0.3	0.2
<i>Deduct:</i> Stock-based compensation expense determined under fair value based method for all awards	(1.2)	(1.8)
Pro forma net loss	\$ (4.6)	\$ (10.8)
<b>Net loss per common share:</b>		
Basic net loss per common share:		
As reported	\$ (0.10)	\$ (0.24)
Pro forma	\$ (0.12)	\$ (0.28)
Diluted net loss per common share:		
As reported	\$ (0.10)	\$ (0.24)
Pro forma	\$ (0.12)	\$ (0.28)

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 first quarter of 2003 and 2002 was \$1.77 and \$1.96, respectively, and estimated using the Black-Scholes model with the following weighted-average assumptions:

	3/31/03	3/31/02
Expected life (in years)	4	5
Interest rate	3.12%	2.78%
Volatility	78.09%	88.6%
Dividend yield		

**Note 4 Inventories**

(In millions)	3/31/03	12/31/02
Raw materials	\$ 49.7	\$ 40.7
Work in progress	39.2	37.6
Finished goods	37.7	35.3
Total inventories	\$ 126.6	\$ 113.6





**Note 5 - Business Consolidation and Restructuring Programs**

Business consolidation and restructuring liabilities as of March 31, 2003 and December 31, 2002, and activity of the Company's two remaining programs for the quarter ended March 31, 2003, consisted of the following:

(In millions)	Employee Severance	Facility & Equipment	Total
<b>Balance as of December 31, 2002</b>	\$ 8.0	\$ 2.5	\$ 10.5
Current period expenses		0.6	0.6
Change in estimated expenses	0.3	(0.2)	0.1
Net business consolidation and restructuring expenses	0.3	0.4	0.7
Cash expenditures	(1.9)	(0.9)	(2.8)
<b>Balance as of March 31, 2003</b>	<b>\$ 6.4</b>	<b>\$ 2.0</b>	<b>\$ 8.4</b>

*November 2001 Program*

During the fourth quarter of 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 through 2003 and due to the continued depressed business conditions in the electronics market. For the quarter ended March 31, 2003, the Company recognized \$0.2 million of business consolidation and restructuring expenses related to this program for equipment relocation and re-qualification costs that are expensed as incurred. In addition, \$0.3 million of additional severance expense was recognized in the first quarter of 2003 due to a change in estimate, while accrued liabilities for facility and equipment was reduced by \$0.2 million.

For the quarter ended March 31, 2002, the Company recognized \$0.3 million expense for equipment relocation and re-qualification costs that are expensed as incurred.

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

(In millions)	Employee Severance	Facility & Equipment	Total
<b>Balance as of December 31, 2002</b>	\$ 7.8	\$ 2.5	\$ 10.3
Current period expenses		0.2	0.2
Change in estimated expenses	0.3	(0.2)	0.1
Net business consolidation and restructuring expenses	0.3		0.3
Cash expenditures	(1.9)	(0.5)	(2.4)
<b>Balance as of March 31, 2003</b>	<b>\$ 6.2</b>	<b>\$ 2.0</b>	<b>\$ 8.2</b>

*September 1999 Program*

As a result of several substantial business acquisitions, the Company initiated a business consolidation program in September 1999. The primary purpose of the program was to integrate acquired assets and operations into the Company, and to close or restructure insufficiently profitable facilities and activities. Due to aerospace industry requirements to qualify specific equipment and manufacturing processes for certain products, some business consolidation actions have taken over three years to complete. These qualification requirements increase the complexity, cost and time of moving equipment and rationalizing manufacturing activities. For both of the quarters ended March 31, 2003 and 2002, the Company recognized \$0.4 million of business consolidation expenses related to this program for equipment relocation and re-qualification costs that are expensed as incurred.

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

(In millions)	Employee Severance	Facility & Equipment	Total
<b>Balance as of December 31, 2002</b>	\$ 0.2	\$	\$ 0.2
Current period expenses		0.4	0.4
Cash expenditures		(0.4)	(0.4)
<b>Balance as of March 31, 2003</b>	<b>\$ 0.2</b>	<b>\$</b>	<b>\$ 0.2</b>

**Note 6 Mandatorily Redeemable Convertible Preferred Stock**

On March 19, 2003, Hexcel received \$119.8 million, after expenses of \$5.2 million, from the issuance of 125,000 shares of a series A convertible preferred stock and 125,000 shares of a series B convertible preferred stock. Hexcel issued 77,875 shares of each series to affiliates of Berkshire Partners LLC and Greenbriar Equity Group LLC. Separately, Hexcel issued 47,125 shares of each series to investment funds controlled by affiliates of The Goldman Sachs Group, Inc., a related party. Upon issuance, the total number of Hexcel's outstanding common shares, including potential shares issuable upon conversion of both of the new series of convertible preferred stocks, increased from approximately 38.6 million shares to approximately 88.4 million shares. In addition, an increase in the common shares authorized for issuance from 100.0 million shares to 200.0 million shares was approved by the shareholders on March 18, 2003.

The series A and the series B convertible preferred stocks are mandatorily redeemable on January 22, 2010 for cash or for common stock at the Company's discretion. Each share of series A and series B preferred stock is convertible, at the option of the holder, into that number of shares of common stock equal to the stated value of the share of preferred stock divided by the conversion price. The stated value of each share of series A preferred stock is \$1,000, the stated value of each share of series B preferred stock is \$195.618, and the conversion price for each share of preferred stock is \$3.00. Both the series A preferred stock and series B preferred stock will automatically be converted into common stock if the closing trading price of the common stock for any period of 60 consecutive trading days ending after March 19, 2006 exceeds \$9.00 per share. The preferred stockholders are entitled to vote on an as converted basis with Hexcel's common stockholders.

Commencing on the third anniversary of the original issuance, 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 issuance of the series A and series B convertible preferred stock will result in certain deductions being recognized in the Company's consolidated statement of operations until such time as the preferred stock is converted to Hexcel common stock or redeemed. These deductions are reported under a caption "Deemed preferred dividends and accretion" and represent a reduction of net income (loss) in arriving at net income (loss) available to common shareholders. For the first quarter of 2003, the Company recognized deemed preferred dividends and accretion of \$0.5 million.

Deemed preferred dividends and accretion is composed of four components: accrued dividends, discount, beneficial conversion feature, and deferred issuance costs. The accretion of these components is a non-cash expense at the time of recognition. However, cash may be utilized to pay future dividends and/or for the redemption of the preferred stock. In addition, in each instance, the components are accrued over the life of the convertible preferred stock using the effective interest method.

The beneficial conversion feature to be accreted over the term of the convertible preferred stock has been estimated as \$23.4 million. The beneficial conversion feature is the difference between the proceeds received from the issuance of the series A and series B convertible preferred stock, net of commitment fees, and the deemed fair market value at the closing of the Company's common stock into which the series A and series B convertible preferred stock is convertible. The deemed fair market value of the Company's common stock was calculated based upon the average price of the Company's common stock on March 19, 2003 of \$2.93 per share.

#### Note 7 - Notes Payable and Capital Lease Obligations

(In millions)	3/31/03	12/31/02
Senior secured credit facility, due 2008	\$ 12.0	\$ 179.7
Senior credit facility, due 2004		179.7
European credit and overdraft facilities	2.6	0.2
9.875% senior secured notes, due 2008, net of unamortized discount of \$1.3 as of March 31, 2003	123.7	
9.75% senior subordinated notes, due 2009, net of unamortized discount of \$1.1 as of March 31, 2003 and \$1.2 as of December 31, 2002	338.9	338.8
7.0% convertible subordinated notes, due 2003		46.9
7.0% convertible subordinated debentures, due 2011	22.7	22.7
Total notes payable	499.9	588.3
Capital lease obligations	32.0	33.4
Total notes payable and capital lease obligations	\$ 531.9	\$ 621.7
Notes payable and current maturities of long-term liabilities	\$ 9.0	\$ 621.7
Long-term notes payable and capital lease obligations, less current maturities	522.9	
Total notes payable and capital lease obligations	\$ 531.9	\$ 621.7

#### Senior Secured Credit Facility, due 2008

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

All obligations under the credit facility are secured by a first priority security interest in accounts receivable, inventory and cash and cash equivalents of Hexcel Corporation and its material domestic subsidiaries. In addition, all obligations under the credit facility are secured by a pledge of 65% of the stock of Hexcel's French and U.K. first-tier holding companies and certain foreign intercompany notes. This pledge of foreign stock and these foreign intercompany notes is on an equal basis with a substantially identical pledge of such stock and foreign

intercompany notes given to secure the

obligations under the senior secured notes. The obligations of the U.K. borrower are secured by the accounts receivable, inventory, and cash and cash equivalents of the U.K. borrower. The obligations of the Austrian and German borrowers are secured by the accounts receivable of the Austrian and German borrowers, respectively.

Hexcel is required to maintain various financial covenant ratios throughout the term of the credit facility. These financial covenants set maximum values for the Company's leverage ratios for any fiscal quarter-end and capital expenditures, and set minimum values for the Company's fixed charge coverage ratio for any fiscal quarter-end. These financial maintenance covenants can be found in the credit agreement, which was filed as an exhibit to the Company's 2002 Annual Report on Form 10-K/A (Amendment No. 1).

The credit facility also contains limitations on, among other things, incurring debt, granting liens, making investments, making restricted payments, entering into transactions with affiliates and prepaying subordinated debt. The credit facility contains other customary terms relating to, among other things, representations and warranties, additional covenants and events of default.

At March 31, 2003, the Company had borrowings of \$12.0 million under this facility. After taking into account a borrowing base of \$77.8 million, less advances, letters of credit outstanding and other adjustments, the Company had undrawn revolver and overdraft availability under the facility of \$40.0 million as of March 31, 2003.

Hexcel is able to issue letters of credit up to \$50.0 million under this facility. At March 31, 2003, Hexcel had issued letters of credit totaling \$25.8 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 a standby letter of credit of \$1.3 million outstanding at March 31, 2003, that was separate from this facility.

#### *Senior Secured Notes, due 2008*

Also on March 19, 2003, the Company issued, through a private placement under Rule 144A, \$125.0 million of 9-7/8% senior secured notes at a price of 98.952% of face value. Interest on the notes is payable on April 1<sup>st</sup> and October 1<sup>st</sup> of each year. The first payment will be made on October 1, 2003. The senior secured notes, due October 1, 2008, are secured by a first priority security interest in substantially all of Hexcel's and its domestic subsidiaries' property, plant and equipment, intangibles, intercompany notes and other obligations receivable, and 100% of the outstanding voting stock of certain of Hexcel's domestic subsidiaries. In addition, the senior secured notes are secured by a pledge of 65% of the stock of Hexcel's French and U.K. first-tier holding companies. This pledge of foreign stock and the pledge of certain foreign intercompany notes is on an equal basis with a substantially identical pledge of such foreign stock and foreign intercompany notes given to secure the obligations under the Company's new senior secured credit facility, described above. The senior secured notes are also guaranteed by Hexcel's material domestic subsidiaries. Hexcel has the ability to incur additional debt that would be secured on an equal basis by the collateral securing the senior secured notes. The amount of additional secured debt that may be incurred is currently limited to \$10.0 million, but may increase over time based on a formula relating to the total net book value or the appraised value of Hexcel's domestic property, plant and equipment pledged to the noteholders.

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



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Hexcel has agreed, under a registration rights agreement, to offer to all noteholders the opportunity to exchange their notes for new notes that are substantially identical to the existing notes except that the new

notes will be registered with the Securities and Exchange Commission ( SEC ) and will not have any restrictions on transfer. In the event that Hexcel cannot effect such an exchange, Hexcel will be required to file a shelf registration statement with the SEC to permit the noteholders to resell their notes generally without restriction.

*Classification of Debt and Capital Lease Obligations*

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

As a result of the March 19, 2003 refinancing transactions, the uncertainties surrounding the Company's ability to meet its scheduled 2003 debt maturities and comply with its debt covenants have been resolved. Management believes the Company will comply with the new debt covenants and has adequate liquidity available to finance operations beyond December 31, 2003. With these uncertainties resolved, substantially all of the Company's debt was reclassified to long-term at March 31, 2003 reflecting the new scheduled debt maturities.

**Note 8 - Net Loss Per Common Share**

(In millions, except per share data)	Quarter Ended March 31,	
	2003	2002
<i>Basic net loss:</i>		
Net loss	\$ (3.2)	\$ (9.2)
Deemed preferred dividends and accretion	(0.5)	
Net loss available to common shareholders	\$ (3.7)	\$ (9.2)
Weighted average common shares outstanding	38.5	38.2
<i>Basic net loss per common share:</i>		
Net loss	\$ (0.09)	\$ (0.24)
Deemed preferred dividends and accretion	(0.01)	
Basic net loss per common share	\$ (0.10)	\$ (0.24)
<i>Diluted net loss:</i>		
Net loss	\$ (3.2)	\$ (9.2)
Deemed preferred dividends and accretion	(0.5)	
Net loss available to common shareholders	\$ (3.7)	\$ (9.2)
Weighted average common shares outstanding	38.5	38.2
<i>Diluted net loss per common share:</i>		
Net loss	\$ (0.09)	\$ (0.24)

Deemed preferred dividends and accretion		<b>(0.01)</b>		
Diluted net loss per common share	\$	<b>(0.10)</b>	\$	(0.24)

The assumed conversion of the Company's convertible subordinated notes, due 2003, exchangeable for 3.0 million common shares, convertible subordinated debentures, due 2011, exchangeable for 0.7 million common shares, and 9.4 million shares underlying outstanding stock options and restricted stock units were excluded from the computations of diluted net loss per common share for the quarter ended March 31, 2003, as they were anti-dilutive. In addition, the Company's recently issued mandatorily redeemable convertible preferred stock, convertible into 49.8 million common shares, was excluded from

the March 31, 2003 computation of diluted net loss per common share, as it was also anti-dilutive. In the first quarter of 2003, proceeds from the sale of the mandatorily redeemable convertible preferred stock were used to provide for the redemption of the remaining \$46.9 million principal amount of the convertible subordinated notes, due 2003.

The assumed conversion of the Company's convertible subordinated notes, due 2003, exchangeable for 3.0 million common shares, convertible subordinated debentures, due 2011, exchangeable for 0.8 million common shares, and 8.9 million shares underlying outstanding stock options and restricted stock units were excluded from the computations of diluted net loss per common share for the quarter ended March 31, 2002, as they were anti-dilutive.

#### Note 9 - Comprehensive Income (Loss)

Comprehensive income (loss) represents net income (loss) and other gains and losses affecting shareholders' equity (deficit) that are not reflected in the condensed consolidated statements of operations. The components of comprehensive loss for the quarters ended March 31, 2003 and 2002 were as follows:

(In millions)	Quarter Ended March 31,	
	2003	2002
Net loss available to common shareholders	\$ (3.7)	\$ (9.2)
Currency translation adjustment	3.3	(5.0)
Net unrealized gains or losses on financial instruments	1.5	(0.3)
Comprehensive income (loss)	\$ 1.1	\$ (14.5)

#### Note 10 - Derivative Financial Instruments

##### *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 at fixed rates on specified dates through March 2005. The aggregate notional amount of these contracts was \$45.9 million at March 31, 2003 and \$58.0 million at December 31, 2002. The purpose of these contracts is to hedge a portion of the forecasted transactions of European subsidiaries under long-term sales contracts with certain customers. These contracts are expected to provide the Company with a more balanced matching of future cash receipts and expenditures by currency, thereby reducing the Company's exposure to fluctuations in currency exchange rates. For the quarters ended March 31, 2003 and 2002, hedge ineffectiveness was immaterial and the fair value of the foreign currency cash flow hedges recognized as a component of accumulated other comprehensive loss was a net gain of \$4.9 million and a net loss of \$6.2 million, respectively. Over the next twelve months, approximately \$2.8 million of unrealized gains recorded in accumulated other comprehensive loss are expected to be reclassified into earnings as the hedged sales are recorded.

**Note 11 - 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 the purposes of assisting 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 ended March 31, 2003 and 2002, is as follows:

(In millions)	Reinforcements	Composites	Structures Unaudited	Corporate & Other	Total
<b>First Quarter 2003</b>					
Net sales to external customers	\$ 57.9	\$ 147.5	\$ 23.2	\$	\$ 228.6
Intersegment sales	23.0	5.3			28.3
Total sales	80.9	152.8	23.2		256.9
Operating income (loss)	3.9	18.8	1.2	(6.7)	17.2
Depreciation	4.3	7.6	0.6		12.5
Business consolidation and restructuring expenses	0.1	0.6			0.7
Capital expenditures	1.3	1.0			2.3
<b>First Quarter 2002</b>					
Net sales to external customers	\$ 62.0	\$ 131.7	\$ 28.4	\$	\$ 222.1
Intersegment sales	18.2	4.7			22.9
Total sales	80.2	136.4	28.4		245.0
Operating income (loss)	3.6	15.0	0.9	(6.2)	13.3
Depreciation	4.0	7.1	0.7		11.8
Business consolidation and restructuring expenses	0.3	0.4			0.7
Capital expenditures	0.5	1.3			1.8

*Goodwill*

The gross carrying amount and accumulated amortization of goodwill for the Company's segments as of March 31, 2003 and December 31, 2002, are as follows:

(in millions)	March 31, 2003			December 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Reinforcements	\$ 69.9	\$ 29.8	\$ 40.1	\$ 69.9	\$ 29.8	\$ 40.1
Composites	32.3	13.9	18.4	31.1	13.4	17.7
Structures	23.5	6.9	16.6	23.5	6.9	16.6

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Goodwill	\$	125.7	\$	50.6	\$	75.1	\$	124.5	\$	50.1	\$	74.4
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**Note 12 Taxes**

The Company's tax provision of \$2.3 million and \$2.5 million in the first quarter of 2003 and 2002, respectively, was primarily for taxes on European income, and reflects the impact of a non-cash valuation allowance attributable to currently generated U.S. net operating losses. The Company will continue to increase its tax provision rate through the establishment of a non-cash valuation allowance attributable to currently generated U.S. net operating losses until such time as the U.S. operations generate income in future years to utilize the net operating losses in full.

The U.S. and European components of income (loss) before income taxes and the provision for income taxes for the quarters ended March 31, 2003 and 2002 are as follows:

	U.S.		Quarter Ended March 31, 2003		Total
			Europe		
Income (loss) before income taxes	\$	(7.2)	\$	6.7	\$ (0.5)
Provision for income taxes		0.1		2.2	2.3
Income (loss) before equity in losses of affiliated companies	\$	(7.3)	\$	4.5	\$ (2.8)

	U.S.		Quarter Ended March 31, 2002		Total
			Europe		
Income (loss) before income taxes	\$	(11.2)	\$	6.9	\$ (4.3)
Provision for income taxes		0.1		2.4	2.5
Income (loss) before equity in losses of affiliated companies	\$	(11.3)	\$	4.5	\$ (6.8)

*Net Operating Loss Carryforwards*

As of March 31, 2003, Hexcel had net operating loss carryforwards for U.S. federal and Belgium income tax purposes of approximately \$92.3 million and \$7.2 million, respectively. As a result of the Company's issuance of mandatorily redeemable convertible preferred stock (described in Note 6), the Company has experienced an ownership change pursuant to IRC Section 382, which will limit the Company's ability to utilize net operating losses created prior to March 19, 2003 against future U.S. taxable income to \$5.3 million annually.

**Note 13 Investments in Affiliated Companies**

In January 2003, the Financial Accounting Standards Board issued Financial Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. Accordingly, FIN 46 requires existing unconsolidated variable interest entities to be consolidated by



their primary beneficiaries if the entities do not effectively disperse equity investment risks among the parties involved. Variable interest entities that effectively disperse risks are not to be consolidated. However, the following additional disclosures are required for an enterprise that holds a significant interest in a variable interest entity but is not the primary beneficiary: (i) the nature of its involvement and when the involvement began, (ii) the nature, purpose, size and activities of the entity, and (iii) the enterprise's maximum exposure to loss as a result of its involvement.

The Company has considered its equity investments and believes that certain of these investments would be considered variable interest entities. However, management believes that the Company is not the primary beneficiary of such entities, and therefore, would not be required to consolidate these entities in its accounts. The Company has made, below, the necessary additional disclosures.

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. BHA Aero began deliveries in the first half of 2002 with no significant revenues to date. Also 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. Asian Composites began shipping composite structures to customers during the second half of 2001, and currently has less than \$2.5 million in quarterly revenues. At March 31, 2003, Hexcel had an equity investment balance of \$3.7 million and an aggregate receivable balance of \$2.8 million related to these joint ventures. In addition, the Company has an outstanding letter of credit of \$11.1 million supporting a loan to BHA Aero. Hexcel has no other significant exposures to loss with BHA Aero and Asian Composites.

As part of an acquisition in 1998, the Company obtained equity ownership interests in three joint ventures which manufacture reinforcement products: a 43.6% share in Interglas Technologies AG ( Interglas ), headquartered in Germany; a 43.3% share in Asahi-Schwebel Co., Ltd. ( Asahi-Schwebel ), headquartered in Japan; and a 50% share in Clark-Schwebel Tech-Fab Company, headquartered in the United States. Clark-Schwebel Tech-Fab Company was converted into a limited liability company on March 27, 2003 and changed its legal name to TechFab LLC ( TechFab ). Interglas and Asahi-Schwebel are fiberglass fabric producers serving the European and Asian manufacturers of printed circuit board laminates and other reinforcement product applications. In 2001, Hexcel recognized an impairment charge for its entire equity investment in Interglas, as the entity's net losses were deemed to be other than temporary. In 2002, Hexcel agreed with its Asian Electronics venture partner to restructure its minority interest in Asahi-Schwebel. Under the terms of the agreement, the Company reduced its ownership interest in the joint venture from 43.3% to 33.3% and received cash proceeds of \$10.0 million. The agreement also included, among other matters, a put option in favor of the Company to sell and a call option in favor of the Company's joint venture partner to purchase the Company's remaining ownership interest in the joint venture for \$23.0 million. The options are simultaneously effective for a six-month period beginning July 1, 2003. Reflecting these terms, the Company wrote-down the carrying value of its remaining equity investment in this joint venture to its estimated fair market value of \$23.0 million. TechFab manufactures non-woven reinforcement materials for roofing, construction, sail cloth and other specialty applications. TechFab has approximately \$25 million in annual revenues, generating approximately \$3 million in net income. At March 31, 2003, Hexcel had an equity investment balance in TechFab of \$6.7 million. Hexcel has no other significant exposures to loss with these joint ventures.

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. DHL has annual revenues of approximately \$10 million without any notable net income. Due to DHL's recognition of net losses in prior years, no equity investment balance remains for DHL at March 31, 2003. However, Hexcel is contingently liable to pay DIC up to \$1.5 million with respect to DHL's debt under certain defined circumstances through January 31, 2004, unless renewed. This contingent liability will cease upon DHL's repayment of the underlying loan.

**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. Warranty expense for the quarter ended March 31, 2003, and accrued warranty cost, included in other accrued liabilities in the consolidated balance sheets at March 31, 2003 and December 31, 2002 was as follows:

(in millions)		<b>Product Warranties</b>
<b>Balance as of December 31, 2002</b>	\$	4.0
Warranty expense		1.4
Deductions and other		(0.3)
<b>Balance as of March 31, 2003</b>	\$	<b>5.1</b>

**Note 15 - Supplemental Guarantor Information**

Certain subsidiaries of Hexcel have jointly, severally, fully and unconditionally guaranteed the Senior Secured Notes due 2008. Presented below is consolidating information for Hexcel (parent, issuer and primary obligor of the debt), Clark-Schwebel Holding Corp., Clark-Schwebel Corporation, CS Tech-Fab Holding, Inc. and Hexcel Pottsville Corporation (guarantor subsidiaries), and the non-guarantor subsidiaries of Hexcel. Hexcel wholly owns all of the subsidiary guarantors.

**Hexcel Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**As of March 31, 2003**

(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ (0.6)	\$ 1.0	\$ 12.7	\$	\$ 13.1
Accounts receivable, net	42.8	15.5	82.7		141.0
Inter-company accounts receivable	88.4	157.4	4.6	(250.4)	
Inventories, net	41.1	32.6	52.9		126.6
Inter-company short-term notes receivable	202.1			(202.1)	
Prepaid expenses and other assets	3.0	0.4	6.2		9.6
Total current assets	376.8	206.9	159.1	(452.5)	290.3
Net property, plant and equipment	148.5	62.9	90.8		302.2
Goodwill, net	22.1	39.0	14.0		75.1
Investments in subsidiaries	(441.1)			441.1	
Investments in affiliated companies		29.8	3.8		33.6
Inter-company long-term notes receivable	649.0		0.7	(649.7)	
Other assets	27.7	0.4	46.0	(29.2)	44.9
Total assets	\$ 783.0	\$ 339.0	\$ 314.4	\$ (690.3)	\$ 746.1
<b>Liabilities and Stockholders Equity</b>					
Current liabilities:					
Notes payable and current maturities of capital lease obligations	\$ 0.1	\$ 6.1	2.8	\$	\$ 9.0
Accounts payable	13.6	19.1	41.2		73.9
Inter-company accounts payable	174.6	48.3	27.5	(250.4)	
Inter-company short-term notes payable		170.2	31.9	(202.1)	
Accrued liabilities	45.2	8.6	33.6		87.4
Total current liabilities	233.5	252.3	137.0	(452.5)	170.3
Long-term notes payable and capital lease obligations	498.3	22.0	2.6		522.9

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Inter-company long-term notes payable	0.7	468.1	180.9	(649.7)	
Other non-current liabilities	26.9	7.8	23.8		<b>58.5</b>
Total liabilities	759.4	750.2	344.3	(1,102.2)	<b>751.7</b>
Mandatorily redeemable convertible preferred stock	96.9				<b>96.9</b>
Stockholders' equity (deficit)	(73.3)	(411.7)	(29.9)	411.9	<b>(102.5)</b>
Total liabilities and stockholders' equity (deficit)	\$ 783.0	\$ 339.0	\$ 314.4	\$ (690.3)	\$ <b>746.1</b>

**Hexcel Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**As of December 31, 2002**

(In millions)	Parent	Guarantors	Non- Guarantors	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ (0.2)	\$ 1.3	\$ 7.1	\$	\$ 8.2
Accounts receivable, net	34.1	12.4	70.8		117.3
Inter-company accounts receivable	79.4	147.0	4.4	(230.8)	
Inventories, net	40.6	28.6	44.4		113.6
Inter-company short-term notes receivable	160.9			(160.9)	
Prepaid expenses and other assets	3.5	0.4	5.3		9.2
Total current assets	318.3	189.7	132.0	(391.7)	248.3
Net property, plant and equipment	153.6	65.7	90.1		309.4
Goodwill, net	22.1	39.0	13.3		74.4
Investments in subsidiaries	(366.5)			366.5	
Investments in affiliated companies		29.2	4.8		34.0
Inter-company long-term notes receivable	531.2		0.7	(531.9)	
Other assets	25.1	0.5	45.1	(28.7)	42.0
Total assets	\$ 683.8	\$ 324.1	\$ 286.0	\$ (585.8)	\$ 708.1
<b>Liabilities and Stockholders Equity</b>					
Current liabilities:					
Notes payable and current maturities of capital lease obligations	\$ 516.5	\$ 29.4	\$ 75.8	\$	\$ 621.7
Accounts payable	13.3	11.8	29.8		54.9
Inter-company accounts payable	165.6	39.0	26.2	(230.8)	
Inter-company short-term notes payable		160.9		(160.9)	
Accrued liabilities	60.1	10.1	32.3		102.5
Total current liabilities	755.5	251.2	164.1	(391.7)	779.1
Inter-company long-term notes payable	0.7	468.1	63.1	(531.9)	
Other non-current liabilities	26.2	7.9	22.3		56.4
Total liabilities	782.4	727.2	249.5	(923.6)	835.5
Stockholders equity (deficit)	(98.6)	(403.1)	36.5	337.8	(127.4)
Total liabilities and stockholders equity (deficit)	\$ 683.8	\$ 324.1	\$ 286.0	\$ (585.8)	\$ 708.1

**Hexcel Corporation and Subsidiaries**  
**Consolidating Statement of Operations**  
**For the Quarter Ended March 31, 2003**

(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 91.3	\$ 53.4	\$ 106.2	\$ (22.3)	\$ 228.6
Cost of sales	73.3	47.9	83.7	(22.3)	182.6
Gross margin	18.0	5.5	22.5		46.0
Selling, general and administrative expenses	9.0	3.8	11.4	(0.4)	23.8
Research and technology expenses	1.7	0.3	2.3		4.3
Business consolidation and restructuring expenses	0.5	0.1	0.1		0.7
Operating income	6.8	1.3	8.7	0.4	17.2
Interest expense	1.4	9.9	2.4		13.7
Loss on early retirement of debt	4.0				4.0
Income (loss) before income taxes	1.4	(8.6)	6.3	0.4	(0.5)
Provision for income taxes	0.1		2.2		2.3
Income (loss) before equity in earnings	1.3	(8.6)	4.1	0.4	(2.8)
Equity in losses of subsidiaries	(4.9)			4.9	
Equity in earnings (losses) of affiliated companies		0.6	(1.0)		(0.4)
Net income (loss)	(3.6)	(8.0)	3.1	5.3	(3.2)
Deemed preferred dividends and accretion	0.5				0.5
Net income (loss) available to common shareholders	\$ (4.1)	\$ (8.0)	\$ 3.1	\$ 5.3	\$ (3.7)

\*\*\*\*\*

**Hexcel Corporation and Subsidiaries**  
**Consolidating Statement of Operations**  
**For the Quarter Ended March 31, 2002**

(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 93.9	\$ 58.6	\$ 90.4	\$ (20.8)	\$ 222.1
Cost of sales	79.5	52.4	71.4	(20.8)	182.5
Gross margin	14.4	6.2	19.0		39.6
Selling, general and administrative expenses	10.6	2.4	8.9	(0.3)	21.6
Research and technology expenses	1.9	0.3	1.8		4.0
Business consolidation and restructuring expenses	0.5	0.2			0.7

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Operating income	1.4	3.3	8.3	0.3	<b>13.3</b>
Interest expense	5.9	10.3	1.4		<b>17.6</b>
Income (loss) before income taxes	(4.5)	(7.0)	6.9	0.3	<b>(4.3)</b>
Provision for income taxes	0.1		2.4		<b>2.5</b>
Income (loss) before equity in earnings	(4.6)	(7.0)	4.5	0.3	<b>(6.8)</b>
Equity in losses of subsidiaries	(4.9)			4.9	
Equity in losses of affiliated companies		(1.1)	(1.3)		<b>(2.4)</b>
Net income (loss)	\$ (9.5)	\$ (8.1)	\$ 3.2	\$ 5.2	<b>(9.2)</b>



**Hexcel Corporation and Subsidiaries**  
**Consolidating Statement of Cash Flows**  
**For the Quarter Ended March 31, 2003**

(In millions)	Parent	Guarantors	Non- Guarantors	Eliminations	Total
<b>Cash flows from operating activities</b>					
Net income (loss)	\$ (3.6)	\$ (8.0)	\$ 3.1	\$ 5.3	\$ (3.2)
Reconciliation to net cash used for operating activities:					
Depreciation	5.4	3.3	3.8		12.5
Amortization	1.0		0.4	(0.4)	1.0
Deferred income taxes	0.1		0.1		0.2
Business consolidation and restructuring expenses	0.5	0.1	0.1		0.7
Business consolidation and restructuring payments	(1.7)	(0.4)	(0.7)		(2.8)
Equity in losses of subsidiaries	4.9			(4.9)	
Equity in (earnings) losses of affiliated companies		(0.6)	1.0		0.4
Loss of early retirement of debt	4.0				4.0
Working capital changes and other	(20.4)	(2.1)	(2.9)		(25.4)
Net cash provided by (used for) operating activities	(9.8)	(7.7)	4.9		(12.6)
<b>Cash flows from investing activities</b>					
Capital expenditures	(0.3)	(0.5)	(1.5)		(2.3)
Net cash used for investing activities	(0.3)	(0.5)	(1.5)		(2.3)
<b>Cash flows from financing activities</b>					
Proceeds from senior secured credit facilities, net	12.0				12.0
Proceeds from issuance of 9 7/8% senior secured notes, net	123.7				123.7
Proceeds from (repayments of) senior credit facility, net	(106.4)		(73.3)		(179.7)
Redemption of 7% convertible subordinated notes, due 2003	(46.9)				(46.9)
Proceeds from (repayments of) capital leases and other debt, net		(1.4)	2.4		1.0
Proceeds (repayments) of inter-company debt, net	(157.1)	9.3	147.8		
Proceeds from mandatorily redeemed preferred stock	125.0				125.0
Intercompany distributions received (paid)	73.4		(73.4)		
Issuance costs related to debt and equity offerings	(14.1)				(14.1)
Activity under stock plans	0.1				0.1
Net cash provided by (used for) financing activities	9.7	7.9	3.5	(1.3)	21.1
					(1.3)

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Effect of exchange rate changes on cash and cash equivalents								
Net increase (decrease) in cash and cash equivalents		(0.4)	(0.3)	5.6	<b>4.9</b>			
Cash and cash equivalents at beginning of quarter		(0.2)	1.3	7.1	<b>8.2</b>			
Cash and cash equivalents at end of quarter	\$	(0.6)	\$	1.0	\$	12.7	\$	<b>13.1</b>

**Hexcel Corporation and Subsidiaries**  
**Consolidating Statement of Cash Flows**  
**For the Quarter Ended March 31, 2002**

(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Total
<b>Cash flows from operating activities</b>					
Net income (loss)	\$ (9.5)	\$ (8.1)	\$ 3.2	\$ 5.2	\$ (9.2)
Reconciliation to net cash provided by operations:					
Depreciation	5.8	3.2	2.8		11.8
Amortization	1.0		0.3	(0.3)	1.0
Deferred income taxes	0.1		0.1		0.2
Business consolidation and restructuring expenses	0.5	0.2			0.7
Business consolidation and restructuring payments	(3.9)	(2.3)	(3.2)		(9.4)
Equity in losses of subsidiaries	4.9			(4.9)	
Equity in losses of affiliated companies		1.1	1.3		2.4
Working capital changes and other	(5.8)	(9.5)	6.7		(8.6)
Net cash provided by (used for) operating activities	(6.9)	(15.4)	11.2		(11.1)
<b>Cash flows from investing activities</b>					
Capital expenditures	(0.9)	(0.2)	(0.7)		(1.8)
Net cash used for investing activities	(0.9)	(0.2)	(0.7)		(1.8)
<b>Cash flows from financing activities</b>					
Proceeds (repayments) of credit facilities, net	14.9		(6.7)		8.2
Proceeds (repayments) of long-term debt, net		(1.8)	(0.1)		(1.9)
Proceeds (repayments) of long-term inter-company debt, net	(9.2)	9.3	(0.1)		
Activity under stock plans	0.1				0.1
Net cash provided by (used for) financing activities	5.8	7.5	(6.9)		6.4
Effect of exchange rate changes on cash and cash equivalents		2.0	(3.4)		(1.4)
Net increase (decrease) in cash and cash equivalents	(2.0)	(6.1)	0.2		(7.9)
Cash and cash equivalents at beginning of quarter	2.2	7.1	2.3		11.6
Cash and cash equivalents at end of quarter	\$ 0.2	\$ 1.0	\$ 2.5	\$	\$ 3.7

**ITEM 6. Exhibits and Reports on Form 8-K**

**(a) Exhibits:**

Exhibit No.	Description
3.1	Certificate of Amendment of the Restated Certificate of Incorporation of Hexcel Corporation (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed on March 31, 2003).
3.2	Amended and Restated Bylaws of Hexcel Corporation (incorporated herein by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed on March 31, 2003).
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- 10.10 Stockholders Agreement, dated as of March 19, 2003, among Berkshire Fund V, Limited Partnership, Berkshire Fund VI, Limited Partnership, Berkshire Fund V Investment Corp., Berkshire Fund VI Investment Corp., Berkshire Investors LLC, Greenbriar Co-Investment Partners L.P, Greenbriar Equity Fund, L.P. and Hexcel Corporation (incorporated herein by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed on March 31, 2003).
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Bank USA, as Joint Collateral Agent (incorporated herein by reference to Exhibit 10.64 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed on March 31, 2003).

- 10.16 Collateral Agency Agreement, dated as of March 19, 2003, by and among Hexcel Corporation, HSBC Bank USA, as Joint Collateral Agent, Well Fargo Bank Minnesota, National Association, as trustee, and the representatives of the holders of Parity Lien Debt who may become a party thereto (incorporated herein by reference to Exhibit 10.65 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed on March 31, 2003).
- 10.17 Intercreditor and Agency Agreement dated as of March 19, 2003, by and among HSBC Bank USA, as Joint Collateral Agent, Fleet Capital Corporation, as Intercreditor Agent and Security Trustee, Fleet Capital Corporation, as Administrative Agent under the Existing Credit Facility, Well Fargo Bank Minnesota, National Association, as trustee, and each other Credit Facility Agent that may become a party thereto (incorporated herein by reference to Exhibit 10.66 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, filed on March 31, 2003).
- 99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**(b) Reports on Form 8-K:**

Current Report on Form 8-K dated March 20, 2003, announcing the successful completion of the refinancing of Hexcel's capital structure through the simultaneous closing of three financing transactions: the sale of convertible preferred stock for \$125 million, the issuance of \$125 million of 9-7/8% senior secured notes due 2008, and the establishment of a new \$115 million senior credit facility.

Current Report on Form 8-K dated March 10, 2003, announcing the pricing of \$125 million in principal amount of 9-7/8% senior secured notes due 2008.

Current Report on Form 8-K dated January 27, 2003, relating to Hexcel's 2002 fourth quarter and year-end results.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Hexcel Corporation

July 10, 2003  
(Date)

/s/ William J. Fazio  
William J. Fazio  
Corporate Controller and  
Chief Accounting Officer



**CERTIFICATIONS**

I, David E. Berges, certify that:

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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

July 10, 2003  
(Date)

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

I, Stephen C. Forsyth, certify that:

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

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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

July 10, 2003  
(Date)

/s/ Stephen C. Forsyth  
Stephen C. Forsyth  
Executive Vice President and  
Chief Financial Officer

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