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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

Hexcel Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-1109521**
(State of Incorporation)	(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 ý No o

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

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

INDEX

PART I.	FINANCIAL INFORMATION
ITEM 1.	Condensed Consolidated Financial Statements
	Condensed Consolidated Balance Sheets March 31, 2003 and December 31, 2002
	Condensed Consolidated Statements of Operations The Quarters Ended March 31, 2003 and 2002
	Condensed Consolidated Statements of Cash Flows The Quarters Ended March 31, 2003 and 2002
	Notes to Condensed Consolidated Financial Statements
PART II.	OTHER INFORMATION
ITEM 6.	Exhibits and Reports on Form 8-K
SIGNATURE	
CERTIFICATIONS	

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 I 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
Assets		
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
Liabilities and Stockholders Equity (Deficit)		
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):		

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, $0.01 par value, 200.0 shares of stock authorized, and 39.9 shares issued and outstanding at March 31, 2003, and 100.0 shares of stock authorized, and 39.8 shares issued and outstanding at December 31, 2002		**0.4**		0.4
Additional paid-in capital		**311.7**		288.2
Accumulated deficit		**(384.7)**		(381.5)
Accumulated other comprehensive loss		**(16.4)**		(21.2)
		(89.0)		(114.1)
Less Treasury stock, at cost, 1.3 shares at March 31, 2003 and at December 31, 2002		**(13.5)**		(13.3)
Total stockholders equity (deficit)		**(102.5)**		(127.4)
Total liabilities and stockholders equity (deficit)	**$**	**746.1**	$	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	2002
	Unaudited	

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	
Cash flows from operating activities		
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)
Cash flows from investing activities		
Capital expenditures	**(2.3)**	(1.8)
Net cash used for investing activities	**(2.3)**	(1.8)
Cash flows from financing activities		
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
Supplemental Data:		
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

6

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
Net loss:				
Net loss available to common shareholders, as reported	**$**	**(3.7)**	$	(9.2)
Add: Stock-based compensation expense included in reported net income		**0.3**		0.2
Deduct: 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)
Net loss per common share:				
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

7

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
Balance as of December 31, 2002	$ 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)
Balance as of March 31, 2003	**$ 6.4**	**$ 2.0**	**$ 8.4**

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**
Balance as of December 31, 2002	$	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)
Balance as of March 31, 2003	**$**	**6.2**	**$**	**2.0**	**$**	**8.2**

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
Balance as of December 31, 2002	$ 0.2	$	$ 0.2
Current period expenses		0.4	0.4
Cash expenditures		(0.4)	(0.4)
Balance as of March 31, 2003	**$ 0.2**	**$**	**$ 0.2**

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**	$	
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 1st and October 1st 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.

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

	Quarter Ended March 31,			
(In millions, except per share data)		**2003**		**2002**
Basic net loss:				
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
Basic net loss per common share:				
Net loss	**$**	**(0.09)**	$	(0.24)
Deemed preferred dividends and accretion		**(0.01)**		
Basic net loss per common share	**$**	**(0.10)**	$	(0.24)
Diluted net loss:				
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
Diluted net loss per common share:				
Net loss	**$**	**(0.09)**	$	(0.24)

Deemed preferred dividends and accretion		**(0.01)**		
Diluted net loss per common share	**$**	**(0.10)**	$	(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:

	Quarter Ended March 31,	
(In millions)	**2003**	**2002**
Net loss available to common shareholders		