HEXCEL CORP /DE/
Form S-3/A
July 26, 2005

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 26, 2005

Registration No. 333-126511

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

HEXCEL CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

Subject to Completion. Dated July 26, 2005.

14,500,000 Shares

Hexcel Corporation

Common Stock

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

The common stock is listed on the New York Stock Exchange and the Pacific Exchange under the symbol "HXL." The last reported sale price of the common stock on July 20, 2005 was $16.82 per share.

See "Risk Factors" on page 15 to read about factors you should consider before buying shares of the common stock.

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

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

To the extent that the underwriters sell more than 14,500,000 shares of common stock, the underwriters have the option to purchase up to an additional 2,174,665 shares from the selling stockholders at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2005.

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

Deutsche Bank Securities

Bear, Stearns & Co. Inc.

Jefferies Quarterdeck

Ryan Beck & Co.

Wedbush Morgan Securities Inc.

Prospectus dated , 2005.

AVAILABLE INFORMATION

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

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

- Annual Report on Form 10-K for the fiscal year ended December 31, 2004;

- Quarterly Report on Form 10-Q for the quarter ended March 31, 2005;

- Proxy Statement for the 2005 Annual Meeting of Stockholders of Hexcel Corporation filed on April 15, 2005; and

- Current Reports on Form 8-K dated January 12, 2005; January 19, 2005; January 27, 2005; January 31, 2005; February 4, 2005; March 2, 2005; April 1, 2005; April 26, 2005; and May 24, 2005 (except any materials only "furnished" to the SEC).

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

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

MARKET AND INDUSTRY DATA

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

FORWARD LOOKING STATEMENTS

This prospectus includes and incorporates by reference forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to future prospects, developments and business strategies. These forward looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will" and similar terms and phrases, including references to assumptions. Such statements are based on current expectations, are inherently uncertain and are subject to changing assumptions.

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

- estimates of commercial aircraft production and delivery rates, including those of Airbus Industries ("Airbus") and The Boeing Company ("Boeing");
- expectations of composite content on new commercial aircraft programs;
- expectations regarding the growth in the production of military aircraft, helicopters and launch vehicle programs in 2005 and beyond and the trend in funding for such military aircraft programs;
- expectations regarding future business trends in the electronics fabrics industry;
- expectations regarding the demand for soft body armor made of aramid and specialty fabrics;
- expectations regarding growth in sales of composite materials for wind energy, recreation and other industrial applications;
- expectations as to the impact of increasing prices of raw materials and utilities used in the manufacture of our products;
- estimates of changes in net sales by market compared to 2004;
- expectations as to the availability of carbon and aramid fibers and the expansion of carbon fiber manufacturing capacity;
- expectations regarding our equity in the earnings (losses) of joint ventures, as well as joint venture investments and loan guarantees;
- expectations regarding working capital trends and anticipated capital expenditures levels;
- the availability and sufficiency under our senior credit facility and other financial resources to fund our worldwide operations in 2005 and beyond; and

the impact of various market risks, including fluctuations in the interest rates underlying our variable-rate debt, fluctuations in currency exchange rates, fluctuations in commodity prices and fluctuations in the market price of our common stock.

Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. Such factors include, but are not limited to, the following: changes in general economic and business conditions; changes in current pricing and cost levels; changes in political, social and economic conditions and local regulations, particularly in Asia and Europe; foreign currency fluctuations; changes in aerospace delivery rates; reductions in sales to any significant customers, particularly Airbus or Boeing; changes in sales mix; changes in government defense procurement budgets; changes in military aerospace programs or technology; industry capacity; competition; disruptions of established supply channels; manufacturing capacity constraints; the availability, terms and deployment of capital; and the other factors described under "Risk Factors." Additional information regarding these factors is contained in our Annual Report on Form 10-K for the year ended December 31, 2004.

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

SUMMARY

This summary may not contain all of the information that may be important to you. You should read the entire prospectus, including the financial data and related notes, before making an investment decision. The terms "Hexcel," the "Company," "we" and "us" in this prospectus refer to Hexcel Corporation and its subsidiaries, unless the context otherwise requires. You should pay special attention to the "Risk Factors" section beginning on page 15 of this prospectus to determine whether an investment in our common stock is appropriate for you. Unless otherwise noted, all references in this prospectus to a number or percentage of shares outstanding are based on 54,696,233 shares of our common stock outstanding as of June 24, 2005. Unless otherwise noted, the information in this prospectus assumes that the underwriters' over-allotment option to purchase a maximum of 2,174,665 additional shares is not exercised.

Overview

We are a leading producer of advanced structural materials. We develop, manufacture and market lightweight, high-performance reinforcement products, composite materials and composite structures for use in the commercial aerospace, industrial, space and defense and electronics markets. Our products are used in a wide variety of end products, such as commercial and military aircraft, space launch vehicles and satellites, soft body armor, wind turbine blades, printed wiring boards, high-speed trains and ferries, cars and trucks, window blinds, bikes, skis and a wide variety of other recreational equipment. Our advanced structural materials enable our customers to build structures that are lighter, stiffer and/or stronger than structures built with traditional materials without the problems of fatigue or corrosion associated with metals. The following charts summarize our fiscal 2004 net sales by manufactured location, business segment and end market:

For the fiscal year ended December 31, 2004, we generated net sales of $1.07 billion. For the three months ended March 31, 2005, we generated net sales of $290.6 million.

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

We are a vertically integrated manufacturer of products within a single industry: advanced structural materials. Hexcel's advanced structural materials business is organized around three strategic business segments:

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

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

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

With 18 manufacturing facilities located in six countries around the world and joint ventures in the United States and Asia, we are well positioned to take advantage of opportunities for growth worldwide. For the fiscal year ended December 31, 2004, 43.9% of our products were manufactured outside the United States. We serve our international markets through manufacturing facilities and sales offices located in the United States and Europe and through sales offices located in Asia and Australia.

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

Competitive Strengths

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

Industry Leader with Comprehensive Product Capabilities

We believe that we are:

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

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

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

We have been an industry leader for more than 50 years and attribute the strength and longevity of our leading position to our reputation for high quality and engineering excellence across the broad range of our product offerings. We are a vertically integrated manufacturer, with a supply chain that provides us with a greater ability to control the cost, quality and delivery of our products. In addition, because we develop, manufacture and sell products at each level of our vertically integrated manufacturing process, we are able to provide the broadest possible range of overall materials solutions to our customers. Currently, we consume approximately 50% of our carbon fiber production and 25% of our reinforcement fabric production internally and sell the balance of our production to our customers.

Strong Position as Qualified Supplier

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

Visibility into the OEM Recovery

The lead times for the manufacture of modern commercial and military aircraft are long. Changes in aircraft build rates are decided well in advance of changes in production as they take months to implement. Suppliers are notified very early in the planning stage regarding any changes in production requirements and periodically participate in rate readiness studies to determine whether the supply chain can support increases in aircraft production. We believe that knowing these production planning requirements gives us significant visibility into the expected demand for our products for the next twelve to eighteen months. Our advanced structural materials are typically delivered, on average, six months prior to the production of an aircraft, whereas finished composite structures are delivered while an aircraft is being assembled. We are currently delivering materials that will be used to support commercial aircraft production in the second half of 2005 and are beginning to deliver materials to support increased commercial aircraft production in 2006. Our close relationships with all the key OEMs and involvement in their production planning give us confidence in the near to mid-term prospects for our businesses.

Industry and Geographic Diversity

Approximately 43% of our net sales for the fiscal year ended December 31, 2004 were derived from the commercial aerospace industry; 18% from the space and defense industry; 6% from the electronics industry; and 33% from a wide range of industrial applications, including body armor products, wind turbine blades and recreational and automotive products. We believe that these industries are influenced by different factors that do not move in tandem, providing added diversification and stability to our business. Our revenues from market applications outside aerospace represented 39% of our 2004 sales. We benefit from a historically strong base of European operations and product qualifications giving us a strong presence with European customers. Reflecting this geographic revenue diversity, during the fiscal year ended December 31, 2004, we manufactured 44% of our products outside the United States and 56% in the United States. We believe that this industry and geographic diversity provides us with growth platforms that allow us to serve the global needs of our customers.

Growing Share of Growing Markets

Many of the markets we serve with advanced structural materials, such as aerospace, wind energy and ballistic materials, have long-term positive fundamental growth trends. The use of advanced structural materials in aerospace and wind energy applications tends to expand faster than the market as our products are substituted for traditional materials such as aluminum, steel and wood. In commercial aerospace, for example, composite materials are increasingly being used to replace aluminum and other metals throughout the airframe. We believe that this substitution effect represents a long-term trend in the commercial and military aerospace industries, with composites representing an increasingly higher percentage of the total value of the airframe in each new aircraft generation. Early versions of commercial jet aircraft, like the Boeing 707, which was developed in the early-1950s, contained almost no composite materials. One of the first aircraft to use a meaningful amount of composite materials, the Boeing 767, entered service in 1983, and was built with an airframe containing approximately 6% composite materials. The airframe of Boeing's most recently developed aircraft, the 777, which entered service in 1995, is approximately 11% composite. By comparison, the newest generation of aircraft in development, including the Airbus A380 and Boeing 787, is expected to be built with airframes containing approximately 23% and 50% composite materials, respectively. Airbus has also announced it is evaluating building the A350, which it reports will have a 39% composite content. We have been awarded contracts to supply substantial quantities of our products to the A380, including the materials to build the central wing box and aft fuselage. While Boeing has chosen another supplier to provide one advanced structural material product form for the wings and fuselage of the 787, the remaining opportunities for advanced structural materials are significant, and we believe that this will be an important aircraft for our wide range of materials and product forms. We believe that, following the 787, future generations of aircraft will contain increasingly higher percentages of composite materials. As a global leader in the production of advanced structural materials for the commercial aerospace industry, we believe that we are well-positioned to benefit from these trends.

Significant Operating Leverage

Following the industry downturn that began in late 2001, we restructured our company, reducing our annual cash fixed costs by 23%, or $66.4 million, in 2002, primarily through company-wide reductions in managerial, professional, indirect manufacturing and administrative employees, along with organizational rationalization. In the last two years, we have maintained the lean organization we created with the intent that any increase in sales will result in a proportionally greater increase in our profitability. As our commercial aircraft revenue grows as a result of increasing aircraft production rates, we should continue to benefit from controlling our fixed costs, thereby further expanding margins and generating increased amounts of free cash flow to fund capital expenditures and debt repayment.

Manufacturing and Technical Expertise

We have been a leader in advanced structural materials technology for over 50 years. We believe that the range of technologies and products that we have developed over this period gives us a depth of manufacturing expertise and a breadth of products and approvals that would be difficult for our competition to replicate. Our manufacturing and development facilities in the U.S. and Europe offer local support to our customers' needs while leveraging our global capabilities and experience. Our technically-oriented sales force and research and development staff work with new and existing customers to identify and engineer solutions to meet our customers' needs, particularly by identifying areas where new and existing advanced structural materials may beneficially replace traditional materials.

We are continually improving our existing materials and developing new materials as well as seeking to drive down the end component cost for our customers. Areas of current development include:

- a new generation of toughened and self adhesive prepreg systems;
- enhanced modulus carbon fiber products that provide greater stiffness and offer weight savings in the fabrication of composite structures;
- HexMC®, a carbon fiber/epoxy sheet molding compound that enables medium-sized composite components to be produced in mass;
- NC2, a unique multi-axial reinforcement, and binders for use in resin infusion applications;
- alternative solutions to lightening strike protection materials for aircraft;
- innovative lightweight tooling materials;
- a new generation of aircraft floor panels that are lighter than existing products;
- direct fiber placement and resin infusion materials and processes; and
- new acoustic honeycomb core products.

We also expand our manufacturing capabilities to meet our customers expanded requirements. In February 2005, we announced a project to increase our carbon fiber manufacturing capacity by approximately 40% to meet our customers' requirements. This investment was to be completed over a three-year period. In light of the continuing growth in our customers' requirements, we recently increased the size of the project and now plan to increase our carbon fiber manufacturing capacity by approximately 50% of current capacity and are developing plans to complete the project more quickly.

Experienced, Proven and Motivated Management Team

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

Growth Strategy

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

Expand Leadership Position in Commercial Aerospace Industry

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

Significant trends in the commercial aerospace market include the following:

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

The 2005 Boeing Current Market Outlook ("2005 CMO") indicates that the commercial aerospace industry is expected to remain a growth market over the long term, with industry sources projecting worldwide air traffic to grow at a compounded average rate of 5% during the 2005-2024 period, increasing annual revenue passenger miles from approximately 2.3 trillion in 2004 to approximately 5.9 trillion in 2024. The growth in revenue passenger miles will require substantial expansion of the worldwide fleet and OEM production rates. According to industry sources, including the public statements of Boeing and Airbus, new deliveries of large commercial aircraft are expected to grow to 680 in 2005 from 605 in 2004, and then to 775 to 785 in 2006, and over 800 in 2007 and 2008. The 2005 CMO indicates that the worldwide fleet of commercial airlines will more than double over the 20-year period ending 2024, and that almost 26,000 passenger and cargo airplanes will be delivered over the next 20 years.

We continue to pursue the increased use of advanced structural materials in each new generation of commercial aircraft. The Airbus A340-500/600 models for the first time utilize advanced structural materials to fabricate the keel beam and the rear pressure bulkhead. The Airbus A380 reflects further penetration of advanced structural materials because the airframe contains more than 10 times the composite content of the Boeing 747 with which it will compete. Boeing and Airbus are currently developing the 787 and A350 aircraft, respectively, each of which will utilize more advanced structural materials than any previous large commercial aircraft. We believe that the 787 and the A350 will set the standard for the design of future commercial aircraft and the usage of advanced structural materials in their manufacture. We believe that we are well-positioned to capitalize on growth trends in the commercial aerospace industry by continuing to produce a wide variety of advanced structural materials for use in the manufacture of commercial aircraft.

Capitalize on Growing Military Aerospace Markets

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

Capture Significant Share of Growing Wind Energy Market

We believe that we are well positioned to generate revenue growth from the rapid expansion of the wind energy market. The American Wind Energy Association ("AWEA") has reported that global wind energy generating capacity has grown from 6,259 megawatts ("MW") in 1996 to 47,317 MW in 2004, representing a compounded annual growth rate of 29%. In 2004, 7,976 MW of capacity were installed, representing a 20% increase over installed capacity at the end of 2003. At the end of 2004, Europe as a whole, where we are the largest supplier of pre-impregnated composite materials ("prepregs") for these applications, represented approximately 72% of global installed capacity. German installed capacity, which represented 35% of global installed capacity at the end of 2004, increased by 14% in 2004 to 16,629 MW. Spain had the second largest installed capacity at the end of 2004, with approximately 8,263 MW, having increased by 33% in 2004. The growth in demand in Europe for renewable wind energy is driving the construction of large offshore wind farms, which benefit from more consistent wind patterns and the development of larger wind turbines and longer blades. The United States had the third largest installed capacity at the end of 2004, with approximately 6,740 MW, having increased by 6% in 2004. Key to the continuing growth of this market in the United States is the U.S. production tax credit for wind energy, which was renewed through December 2005 by Congress on September 28, 2004. The vast majority of blades on modern wind turbines are fabricated from fiber reinforced structural materials and with each new generation the sizes of the blades increase, creating the opportunity for greater use of our advanced structural materials. We believe that the combination of the superior technology of our products and the strength of our existing relationships in the wind energy industry will enable us to capitalize on the long-term growth of this market.

Expand Applications for Advanced Structural Materials

History has seen the expanded use of our advanced materials both within existing market applications and into new application markets. To date, advanced structural materials have found their greatest use in aerospace and recreation applications, where their performance properties have shown the most demonstrable value. We believe that these materials have potential uses in other structural engineering applications. In 2003 and 2004, in addition to wind energy, we generated significant growth in sales of our ballistics products from the expanded replacement programs by the U.S. military for body armor used by military personnel. While 2005 demand for our reinforcement fabrics used in ballistic applications has remained robust, sales have been lower than in the comparable period in 2004. Sales to Second Chance Body Armor, Inc., ("Second Chance") have been significantly lower compared to 2004, corresponding to lower levels of business at Second Chance as they try to reorganize under Chapter 11 of the U.S. Bankruptcy Code. We are also pursuing growth opportunities in other military applications such as ground vehicles, naval vessels and platform armoring. We believe the breadth and depth of our advanced materials capabilities will serve us well in exploiting the potential of advanced structural materials.

Recent Developments

Second Quarter 2005 Financial Results

On July 25, 2005, we announced certain preliminary results of our quarter ended June 30, 2005. The following preliminary unaudited consolidated financial data summarize our results of operations for our quarter ended, and certain balance sheet data as of, June 30, 2005. However, we have not yet prepared our Quarterly Report on Form 10-Q for the period, and therefore our operating results for the period are subject to completion of certain procedures which may result in changes to these results.

We estimate that our consolidated net sales for the quarter ended June 30, 2005 were approximately $311.3 million, an increase of $39.1 million, or 14.4%, when compared to second quarter 2004 consolidated net sales of $272.2 million. The increase came from significant growth in our commercial aerospace revenues and modest growth in industrial and space and defense revenues; revenues from the electronics market segment were basically flat. At the same foreign exchange rates that applied in the second quarter of 2004, our consolidated net sales for the second quarter of 2005 would have been approximately $307.4 million or 12.9% higher than in the second quarter of 2004.

Commercial Aerospace. Net sales increased $29.3 million, or 25.6%, to $143.9 million for the second quarter of 2005 as compared to net sales of $114.6 million for the second quarter of 2004. The increase was largely due to increased aircraft production by Boeing and Airbus. We also benefited from the favorable mix of aircraft being manufactured by our customers that utilize more composite materials.

Industrial. Net sales for the second quarter of 2005 increased by $5.6 million, or 6.0%, to $98.2 million from net sales of $92.6 million in the second quarter of 2004. This increase was primarily due to strong growth in sales of composite materials used in wind energy applications, offset by lower revenues from reinforcement fabrics used in ballistic applications (driven in part by significantly lower sales to Second Chance Body Armor, Inc., a customer which filed for bankruptcy protection in October 2004) and slightly lower revenues from all other industrial applications.

Space and Defense. Net sales continued to display the benefits of increasing military aircraft production with a $4.3 million, or 8.7%, increase to $53.8 million for the second quarter of 2005. The Company's revenues from military and space programs tend to vary from quarter to quarter more than revenues from programs in other market segments, due to customer ordering patterns and the timing of manufacturing campaigns.

Electronics. Net sales of $15.4 million for the second quarter of 2005 basically remained flat as compared to net sales of $15.5 million for the second quarter of 2004. While the Company remains focused on high-technology and specialty applications for its electronic materials and is targeting further growth in this market, future performance in this segment remains difficult to predict.

We estimate that net income for the quarter ended June 30, 2005 was $26.2 million compared to net income of $8.8 million in the second quarter of 2004. Net income available to common stockholders for the quarter was $23.9 million, or $0.28 per diluted common share, compared to net income of $5.7 million, or $0.10 per diluted common share, for the second quarter of 2004.

As of June 30, 2005, we had aggregate outstanding indebtedness of $453.3 million and cash and cash equivalents of $18.5 million. These figures do not give effect to this offering.

Refinancing

During the first quarter of 2005, we refinanced substantially all of our long-term debt in order to reduce interest expense, establish pre-payable senior debt and extend the maturities of our long-term debt. In particular, we:

- issued $225.0 million principal amount of 6.75% senior subordinated notes due 2015;
- entered into a new $350.0 million senior secured credit facility consisting of a $225.0 million term loan and $125.0 million of revolver availability;
- purchased through a tender offer all of our outstanding 9.875% senior secured notes due 2008 ($125.0 million principal amount, plus accrued interest and tender premium);
- redeemed all of our outstanding 9.75% senior subordinated notes due 2009 ($285.3 million principal amount, plus accrued interest and call premium);
- redeemed all of our outstanding 7.0% convertible subordinated debentures due 2011 ($19.2 million principal amount, plus accrued interest); and
- terminated our existing $115.0 million five-year secured revolving asset-backed credit facility, which was scheduled to expire on March 31, 2008.

Accelerated Charge Upon Conversion of Preferred Stock

We will record an "accelerated charge" immediately upon the conversion of the 24,007 shares of series A convertible preferred stock and 47,125 shares of series B convertible preferred stock into common stock. Assuming the preferred stock conversion took place as of March 31, 2005, the accelerated charge would be $9.5 million. See the notes to the accompanying unaudited pro forma financial information.

Other Information About Our Business

We are incorporated under the laws of the State of Delaware. Our principal executive offices are located at Two Stamford Plaza, 281 Tresser Boulevard, Stamford, Connecticut 06901. Our general telephone number is 203-969-0666. The address of our website is www.hexcel.com. The information on our website is not part of this prospectus. For further information about our business, we refer you to our Annual Report on Form 10-K for the year ended December 31, 2004, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, each of which is incorporated into this prospectus by reference.

The Offering

Securities offered	14,500,000 shares of common stock, par value $0.01 per share.
Over-allotment option granted by the selling stockholders	2,174,665 shares to be provided by the Berkshire/Greenbriar investors (as defined below).
Selling stockholders	All the shares of common stock offered by this prospectus are to be sold by the selling stockholders listed in "Selling Stockholders." We will not offer any shares of common stock in this offering.
Shares of common stock outstanding before this offering	54,696,233 shares.
Shares of common stock outstanding after this offering	65,771,393 shares.
Use of proceeds	We will not receive any proceeds from the sale of the shares of common stock being offered by this prospectus.
NYSE symbol	HXL.

Risk Factors

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

Selling Stockholders

Investment entities controlled by The Goldman Sachs Group, Inc., which we refer to in this prospectus as the "Goldman Sachs investors," hold capital stock representing approximately 24.3% of Hexcel's total voting power as of June 24, 2005. Affiliates of Berkshire Partners LLC and Greenbriar Equity Group LLC, which we refer to in this prospectus collectively as the "Berkshire/Greenbriar investors," hold preferred stock representing approximately 19.7% of Hexcel's total voting power as of June 24, 2005. The selling stockholders offering shares of common stock pursuant to this prospectus are the Goldman Sachs investors listed in the table under "Selling Stockholders" and the Berkshire/Greenbriar investors listed in the table under "Selling Stockholders." See "Selling Stockholders" for a description of each of the selling stockholders and "Certain Relationships and Related Transactions" for a discussion of our relationships with the Goldman Sachs investors and the Berkshire/Greenbriar investors. Immediately following the sale of the shares by the selling stockholders as contemplated by this prospectus, the Goldman Sachs investors will hold common stock and preferred stock representing 15.5% of the Company's total voting power and the Berkshire/Greenbriar investors will hold preferred stock representing 12.7% of the Company's total voting power, in each case assuming that the underwriters do not exercise their over-allotment option.

Under our governance agreement with the Goldman Sachs investors, the Goldman Sachs investors are currently entitled to designate three nominees for election to our ten-member Board of Directors and one director to serve on each committee of our Board of Directors. Under the stockholders agreement with the Berkshire/Greenbriar investors, the Berkshire/Greenbriar investors are currently entitled to designate two nominees for election to our Board of Directors and one director to serve on each committee of our Board of Directors. After the consummation of this offering, the number of director nominees that the Goldman Sachs investors are entitled to designate will decrease from three to two, but the Goldman Sachs investors will still be entitled to designate one director to serve on each committee of our Board of Directors. After the consummation of this offering, the number of director nominees that the Berkshire/Greenbriar investors are entitled to designate will decrease from two to one, and the Berkshire/Greenbriar investors will no longer be entitled to designate a director to serve on each committee of our Board of Directors. Within 10 days of the sale, as required by the governance agreement, the Goldman Sachs investors will cause one director nominated by the Goldman Sachs investors to resign, and, as required by the stockholders agreement, the Berkshire/Greenbriar investors will cause one director nominated by the Berkshire/Greenbriar investors to resign. These resignations will result in two vacancies on our Board of Directors that, as required by the governance agreement and stockholders agreement, will be filled with non-investor director nominees. The Board of Directors will begin a process in due course to identify appropriate candidates to fill these vacancies.

The governance agreement and the stockholders agreement each provides that our Board of Directors will not authorize specified types of significant transactions without the approval of a majority of the directors nominated by each of the respective investors. As a result of this offering, the directors nominated by the Berkshire/Greenbriar investors will no longer have these approval rights under the stockholders agreement with respect to these transactions. See "Certain Relationships and Related Transactions" for a more detailed description of the governance agreement and the stockholders agreement.

Summary Financial Data

The following table presents summary financial and other data with respect to the Company and has been derived from (1) the audited consolidated financial statements of the Company as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, (2) the unaudited condensed consolidated financial statements of the Company as of and for the three months ended March 31, 2005 and 2004 and (3) the unaudited pro forma financial information. The information set forth below should be read together with other information contained under the captions "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, unaudited pro forma financial information and the related notes thereto included or incorporated in this prospectus.

	Year Ended			Three Months Ended	
	December 31, 2002	**December 31, 2003**	**December 31, 2004**	**March 31, 2004**	**March 31, 2005**
	(In millions, except per share data)				
Statements of Operations Data:					
Net sales	$ 850.8	$ 896.9	$ 1,074.5	$ 262.8	$ 290.6
Cost of sales	689.5	722.4	845.4	208.2	224.8
Gross margin	161.3	174.5	229.1	54.6	65.8
Operating expenses:					
Selling, general and administrative	85.9	95.0	113.1	25.5	26.6
Research and technology	14.7	17.7	21.3	4.9	5.7
Business consolidation and restructuring	0.5	4.0	2.9	0.5	0.4
Other (income) expense, net(a)		(2.2)	3.0		0.2
Operating income	60.2	60.0	88.8	23.7	32.9
Interest expense, net	62.8	53.6	47.7	12.4	11.9
Non operating (income) expense, net(b)	(10.3)	2.6	2.2	0.1	40.3
Income (loss) before income taxes	7.7	3.8	38.9	11.2	(19.3)
Provision for income taxes	11.3	13.5	11.2	3.4	3.6
Income (loss) before equity in earnings (losses)	(3.6)	(9.7)	27.7	7.8	(22.9)
Equity in earnings (losses) of and write downs of an investment in affiliated companies	(10.0)	(1.4)	1.1	0.3	0.5
Net income (loss)	(13.6)	(11.1)	28.8	8.1	(22.4)
Deemed preferred dividends and accretion		(9.6)	(25.4)	(3.1)	(2.3)
Net income (loss) available to common stockholders	$ (13.6)	$ (20.7)	$ 3.4	$ 5.0	$ (24.7)
Net income (loss) per common share:					
Basic	$ (0.35)	$ (0.54)	$ 0.09	$ 0.13	$ (0.46)
Diluted	$ (0.35)	$ (0.54)	$ 0.08	$ 0.09	$ (0.46)
Weighted average common shares outstanding:					
Basic	38.4	38.6	39.3	38.9	53.9
Diluted	38.4	38.6	42.1	90.9	53.9

	Year Ended			Three Months Ended	
	December 31, 2002	**December 31, 2003**	**December 31, 2004**	**March 31, 2004**	**March 31, 2005**
			(In millions, except per share data)		
Balance Sheet Data (end of period):					
Cash and cash equivalents	$ 8.2	$ 41.7	$ 57.2	$ 24.0	$ 26.2
Property, plant and equipment, net	309.4	293.9	286.6	282.1	273.0
Working capital	(530.8)	140.7	157.3	143.0	175.5
Total assets	708.1	722.7	776.8	723.1	766.3
Total debt	621.7	483.4	431.4	470.3	483.0
Mandatorily redeemable convertible preferred stock, 0.125 shares of Series A and 0.125 shares of Series B authorized, and 0.101 shares of Series A and 0.047 shares of Series B issued and outstanding at March 31, 2005 and December 31, 2004, and 0.125 shares of Series A and 0.125 shares of Series B issued and outstanding at March 31, 2004 and December 31, 2003		106.0	90.5	109.1	92.8
Stockholders' equity (deficit)	(127.4)	(93.4)	(24.4)	(94.1)	(60.3)
Summary Pro Forma(c):					
Net income (loss) available to common stockholders			$ 23.1		$ (19.5)
Net income (loss) per common share:					
Basic			$ 0.37		$ (0.30)
Diluted			$ 0.35		$ (0.30)
Weighted average common shares outstanding:					
Basic			63.1		65.0
Diluted			65.9		65.0
Other Financial Data:					
Depreciation	$ 47.2	$ 52.2	$ 52.0	$ 13.3	$ 12.3
Capital expenditures	14.9	21.6	38.1	4.5	7.5
Cash flows provided by (used for) operations	65.9	46.9	85.9	2.7	(26.3)
Cash flows provided by (used for) investing	(2.3)	9.1	(28.6)	(4.5)	(15.0)
Cash flows provided by (used for) financing	(67.3)	(26.9)	(41.6)	(16.1)	9.4

(a)

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

	Year Ended			Three Months Ended	
	December 31, 2002	**December 31, 2003**	**December 31, 2004**	**March 31, 2004**	**March 31, 2005**
			(In millions)		
Gain on asset sales	$	$ (2.2)	$ (4.0)	$	$
Accrual for certain legal matters			7.0		0.2

	Year Ended			Three Months Ended	
Total	$	$ (2.2)	$ 3.0	$	$ 0.2

(b)

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

	Year Ended			Three Months Ended	
	December 31, 2002	**December 31, 2003**	**December 31, 2004**	**March 31, 2004**	**March 31, 2005**
			(In millions)		
(Gain) loss on the early retirement of debt	$ (0.5)	$ 4.0	$ 3.2	$ 0.7	$ 40.3
Gain on expiration of contingent liability		(1.4)			
Gain on demutualization of insurance company			(1.0)	(0.6)	
Litigation gain	(9.8)				
Total	$ (10.3)	$ 2.6	$ 2.2	$ 0.1	$ 40.3

(c)

The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2004 and the three months ended March 31, 2005 have been prepared to illustrate the effect of (a) the refinancing of substantially all of the Company's long-term debt during the first quarter of 2005 and (b) the effect of the conversion of 24,007 shares of Series A and 47,125 shares of Series B mandatorily redeemable convertible preferred stock in connection with this offering into 11,075,160 shares of the Company's common stock as if the transactions occurred on January 1, 2004. In addition, the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2004 has been prepared to illustrate the effect of the conversion in December, 2004 by the holders thereof of 23,916 shares of Series A and 77,875 shares of Series B mandatorily redeemable convertible preferred stock into an aggregate of 13,049,912 shares of common stock as if it occurred on January 1, 2004. See "Unaudited Pro Forma Financial Information" included elsewhere in this prospectus.

RISK FACTORS

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

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

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

While Boeing and Airbus have increased their production and deliveries of commercial aircraft in 2005 and indicated that they will make further increases in 2006, the demand for new commercial aircraft is cyclical and any reduction could result in reduced net sales for our commercial aerospace products and could reduce our profit margins. Approximately 43% of our net sales for the year ended December 31, 2004 were derived from sales to the commercial aerospace industry. Reductions in demand for commercial aircraft or a delay in deliveries could result from many factors, including a terrorist event similar to that which occurred on September 11, 2001 and any subsequent military response, changes in the propensity for the general public to travel by air, the rise in the cost of aviation fuel, consolidation and liquidation of airlines and slower macroeconomic growth.

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

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

Approximately 19% and 23% of our net sales for the years ended December 31, 2004 and December 31, 2003, respectively, were made to Boeing and its related subcontractors. Approximately 21% and 20% of our net sales for the years ended December 31, 2004 and December 31, 2003, respectively, were made to EADS, including Airbus and related subcontractors. Accordingly, the loss of, or significant reduction in purchases by, either of these customers or other significant customers could materially impair our operating results and weaken our financial condition.

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

The growth in military aircraft production that has occurred in recent years may not be sustained, production may not continue to grow and the increased demand for replacement helicopter blades and ballistic reinforcement fabrics for soft body armor as a result of the military activities in Afghanistan and Iraq may not be sustained. The production of military aircraft depends upon U.S. and European defense budgets and the related demand for defense and related equipment. As evidenced by recently announced cuts in the U.S. defense budget, these defense budgets may decline, and sales of products used in defense and related equipment by U.S. and foreign governments may not continue at expected levels. Approximately 18% and 20% of our net sales for the years ended December 31, 2004 and December 31, 2003, respectively, were derived from space and defense industries. In addition, a portion of our industrial market application sales were ballistic reinforcement materials sold to customers manufacturing soft body armor for the U.S. military forces and their allies. The space and defense industries are largely dependent upon government defense budgets, particularly the U.S. defense budget.

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

Because we purchase large volumes of raw materials, such as epoxy and phenolic resins, aluminum foil, carbon fiber, fiberglass yarn and aramid paper and fiber, any restrictions on the supply or the increase in the cost of our raw materials could significantly reduce our profit margins. Efforts to mitigate restrictions on the supply or price increases of our raw materials by long-term purchase agreements, productivity improvements or by passing cost increases to our customers may not be successful. Our profitability depends largely on the price and continuity of supply of these raw materials, which are supplied by a limited number of sources. With increased demand for carbon fiber and constrained supply, we are making capital expenditures in 2005 to increase output from our own manufacturing capacity this year. In addition, we have started to implement plans to expand our carbon fiber manufacturing capacity to increase our output by approximately 50% by 2007. Nevertheless, constrained industry-wide supply is currently restricting the availability of carbon fiber particularly for recreational and industrial applications and could also restrict availability for aerospace applications depending on the rate of growth in commercial aircraft production and the timing of the completion of announced new capacity additions. In addition, qualification to use raw materials in some of our products limits the extent to which we are able to substitute alternative materials for these products. Our ability to pass on these costs to our customers is, to a large extent, dependent on the terms of our contracts with our customers and industry conditions, including the extent to which our customers would switch to alternative materials we do not produce in the event of an increase in the prices of our products.

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

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

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

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

In addition, fluctuations in currency exchange rates may influence the profitability and cash flows of our business. For example, our European operations sell some of the products they produce in U.S. dollars, yet the labor and overhead costs incurred in the manufacture of those products is denominated in Euros or British pound sterling. As a result, the local currency margins of goods manufactured with costs denominated in local currency, yet sold in U.S. dollars, will vary with fluctuations in currency exchange rates, reducing when the U.S. dollar weakens against the Euro and British pound sterling. In addition, the reported U.S. dollar value of the local currency financial statements of our foreign subsidiaries will vary with fluctuations in currency exchange rates. While we enter into currency exchange rate hedges from time to time to mitigate these types of fluctuations, we cannot remove all fluctuations or hedge all exposures and our earnings are impacted by changes in currency exchange rates.

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

We could be adversely affected by environmental and safety requirements.

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

We have been named as a "potentially responsible party" under the federal Superfund law or similar state laws at several sites requiring clean up. These laws generally impose liability for costs to investigate and remediate contamination without regard to fault. Under certain circumstances liability may be joint and several, resulting in one responsible party being held responsible for the entire obligation. Liability may also include damages to natural resources. In connection with our Lodi, New Jersey facility, we, along with the approximately 60 other companies, have been directed by state and federal regulatory authorities to contribute to the assessment and restoration of a stretch of the Passaic River, a project currently estimated to cost $1 billion. Although we are vigorously contesting our involvement with this project on scientific and legal grounds, we may ultimately be required to assume a share of the liability. We have also incurred and likely will continue to incur expenses to investigate and clean up our existing and former facilities. We have incurred substantial expenses for our work at these sites over a number of years, and these costs, for which we believe we have adequate reserves, will continue for the foreseeable future. The ongoing operation of our manufacturing plants also entails environmental risks and we may incur material costs or liabilities in the future which could adversely affect us.

In addition, we may be required to comply with evolving environmental, health and safety laws, regulations or requirements that may be adopted or imposed in the future or to address newly discovered information or conditions that require a response. Although most of our properties have been the subject of environmental site assessments, there can be no assurance that all potential instances of soil and groundwater contamination have been identified, even at those sites where assessments have been conducted. Accordingly, we may discover previously unknown environmental conditions and the cost of remediating such conditions may be material. See "Legal

Proceedings" below and Note 16 to the condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

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

After the consummation of this offering, the Goldman Sachs investors will own approximately 15.5% of our outstanding voting securities and the Berkshire/Greenbriar investors will own approximately 12.7% (or 10.3% if the underwriters exercise their over-allotment option) of our outstanding voting securities. After the consummation of this offering, under our governance agreement with the Goldman Sachs investors, the Goldman Sachs investors will be entitled to designate two nominees for election to our ten-member Board of Directors and one director to serve on each committee of our Board of Directors. After the consummation of this offering, under the stockholders agreement with the Berkshire/Greenbriar investors, the Berkshire/Greenbriar investors will be entitled to designate one nominee for election to our Board of Directors but will no longer be entitled to designate one director to serve on each committee of our Board of Directors. In addition, the governance agreement provides that our Board of Directors will not authorize specified types of significant transactions without the approval of a majority of the directors nominated by the Goldman Sachs investors. The interests of the Goldman Sachs investors and the Berkshire/Greenbriar investors may be different than your interests. See "Certain Relationships and Related Transactions" for a more detailed description of the governance agreement and the stockholders agreement.

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

We have substantial debt and debt service requirements. We cannot assure you that we will generate sufficient cash flow from operations, or that we will be able to obtain sufficient funding, to satisfy our debt service obligations. Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. As of March 31, 2005, we had $483.0 million of total debt, or $456.8 million of total debt net of cash on hand. This substantial level of debt has important consequences, including:

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

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

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

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

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

As of June 24, 2005, the number of outstanding shares of our common stock freely tradable on the New York Stock Exchange and not owned by the selling stockholders was approximately 51,271,319. After giving effect to this offering, this figure will increase to 65,771,319 (or 67,945,984 if the underwriters' over-allotment option is exercised). The sale of the shares of common stock in this offering could depress the market price of our common stock.

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

Sales of a substantial number of shares of common stock in the public market by our current stockholders, or the threat that substantial sales may occur, could cause the market price of our common stock to decrease significantly or make it difficult for us to raise additional capital by selling stock. See the section of this prospectus entitled "Shares Eligible for Future Sale" for details regarding the number of shares eligible for sale in the public market after this offering. Several of our existing stockholders, owning 25,692,404 shares of our common stock (including common stock into which such stockholders' preferred stock is convertible) after giving effect to this offering, are parties to registration rights agreements with us. Under those agreements, certain of these stockholders will have the right to require us to effect the registration of their shares of common stock, including shares obtained upon conversion of their preferred stock. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

USE OF PROCEEDS

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

PRICE RANGE OF OUR COMMON STOCK

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

	High	Low
Year Ended December 31, 2005		
First Quarter	$ 17.59	$ 14.20
Second Quarter	$ 18.36	$ 14.27
Third Quarter (through July 20, 2005)	$ 17.72	$ 16.49
Year Ended December 31, 2004		
First Quarter	$ 8.68	$ 7.08
Second Quarter	$ 11.89	$ 6.81
Third Quarter	$ 14.06	$ 10.60
Fourth Quarter	$ 17.75	$ 14.05
Year Ended December 31, 2003		
First Quarter	$ 3.25	$ 2.60
Second Quarter	$ 4.41	$ 2.95
Third Quarter	$ 6.71	$ 3.75
Fourth Quarter	$ 7.60	$ 5.94

On July 20, 2005, the closing sale price of our common stock as reported on the New York Stock Exchange was $16.82 per share.

DIVIDEND POLICY

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

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of March 31, 2005 on an actual and pro forma basis. The pro forma capitalization has been prepared to illustrate the conversion of 24,007 shares of Series A and 47,125 shares of Series B mandatorily redeemable convertible preferred stock in connection with this offering into 11,075,160 shares of the Company's common stock as if the conversion had occurred as of March 31, 2005. Pro forma cash and cash equivalents are presented to reflect expected transaction costs to be paid in cash. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, unaudited pro forma financial information and related notes and other financial information included elsewhere in this prospectus.

	As of March 31, 2005		
	Actual	Adjustments	Pro Forma
		(In millions)	
Cash and cash equivalents	$ 26.2	$ (1.0)	$ 25.2
Senior debt:			
Senior secured credit facility revolving loan due 2010	$ 27.0	$	$ 27.0
Senior secured credit facility term B loan due 2012	225.0		225.0
European credit and over draft facilities	2.1		2.1
Capital lease obligations	3.9		3.9
Total senior debt	258.0		258.0
Other debt:			
6.75% Senior Subordinated Notes due 2015	225.0		$ 225.0
Total other debt	225.0		225.0
Total debt	483.0		483.0
Mandatorily Redeemable Convertible Preferred Stock	92.8	(25.8)	67.0
Stockholders' equity (deficit):			
Preferred stock, no par value, 20,000,000 shares authorized, no shares issued and outstanding			
Common stock, $0.01 par value, 200,000,000 shares authorized, 55,753,243 shares issued (actual); 66,828,403 shares issued (pro forma)	0.6	0.1	0.7
Additional paid in capital	336.3	25.7	362.0
Accumulated deficit	(386.2)	(1.0)	(387.2)
Accumulated other comprehensive income	4.4		4.4
	(44.9)	24.8	(20.1)
Less: Treasury stock, at cost, 1,466,424 shares	(15.4)		(15.4)
Total stockholders' equity (deficit)	(60.3)	24.8	(35.5)

	As of March 31, 2005		
Total capitalization	$ 515.5	$ (1.0)	$ 514.5

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

Results of Operations

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

(In millions, except per share data)	Quarter Ended March 31, Unaudited 2005	2004
Net sales	**$ 290.6**	$ 262.8
Gross margin %	**22.6%**	20.8%
Operating income	**$ 32.9**	$ 23.7
Operating income %	**11.3%**	9.0%
Non operating expense, net	**$ (40.3)**	$ (0.1)
Provision for income taxes	**$ 3.6**	$ 3.4
Equity in earnings of affiliated companies	**$ 0.5**	$ 0.3
Net income (loss)	**$ (22.4)**	$ 8.1
Deemed preferred dividends and accretion	**$ (2.3)**	$ (3.1)
Net income (loss) available to common shareholders	**$ (24.7)**	$ 5.0
Diluted net income (loss) per common share	**$ (0.46)**	$ 0.09

Net Sales: Net sales of $290.6 million for the first quarter of 2005 were $27.8 million, or 10.6%, higher than the $262.8 million of net sales for the first quarter of 2004. The increase was driven by growth in three of the four major market segments along with a favorable impact from changes in foreign currency exchange rates. Had the same U.S. dollar, British pound sterling and Euro exchange rates applied in the first quarter of 2005 as in the first quarter of 2004, net sales for the first quarter of 2005 would have been $286.2 million, $23.4 million, or 8.9%, higher than the first quarter of 2004.

The following table summarizes net sales to third-party customers by segment and end market for the quarters ended March 31, 2005 and 2004, respectively:

(In millions)	Unaudited Commercial Aerospace	Industrial	Space & Defense	Electronics	Total
First Quarter 2005					
Reinforcements	**$ 17.3**	**$ 42.8**	**$**	**$ 16.8**	**$ 76.9**
Composites	**98.3**	**50.6**	**46.8**		**195.7**
Structures	**15.6**		**2.4**		**18.0**
Total	**$ 131.2**	**$ 93.4**	**$ 49.2**	**$ 16.8**	**$ 290.6**
	45%	**32%**	**17%**	**6%**	**100%**

(In millions)	Unaudited Commercial Aerospace	Industrial	Space & Defense	Electronics	Total
First Quarter 2004					
Reinforcements	$ 14.9	$ 43.4	$	$ 15.8	$ 74.1
Composites	80.5	41.5	49.1		171.1
Structures	15.1		2.5		17.6

	Unaudited				
Total	$ 110.5	$ 84.9	$ 51.6	$ 15.8	$ 262.8
	42%	32%	20%	6%	100%

Commercial Aerospace: Net sales increased $20.7 million, or 18.7%, to $131.2 million for the first quarter of 2005, as compared to net sales of $110.5 million for the first quarter of 2004. If adjusted to eliminate the changes in exchange rates, total sales to commercial aerospace applications would have increased by $19.5 million, or 17.6%, compared to the first quarter of 2004. Net sales by each of the Company's business segments increased when compared with the first quarter of 2004 with sales by the Composites business segment having the greatest increase at 22.1%. The overall year over year improvement is driven by higher aircraft build rates by Boeing and Airbus as they increase the number of aircraft they manufacture and deliver in 2005. As Hexcel delivers its products on average six months in advance of actual aircraft deliveries, the Company first saw the benefits of these production increases last summer and they continued to be evident this quarter. With further production increases anticipated in 2006, the Company expects continued growth in commercial aerospace sales in the second half of 2005.

The Company has also benefited during the first quarter of 2005 from the favorable mix of aircraft being manufactured by its customers that utilize more composite materials and the ramp-up of production related to the new Airbus A380 program. The A380 is both the largest commercial aircraft yet built and has the highest composite content of any aircraft in production at 23% by weight. The A380 completed its first successful test flight on April 27, 2005 and is expected to be certified and carry its first passengers in 2006. The Company expects revenues it derives from the A380 program to continue to grow in 2005.

Industrial: Net sales of $93.4 million for the first quarter of 2005 were $8.5 million or 10.0% higher than the net sales of $84.9 million for the same quarter of 2004. Excluding the favorable impact on foreign currency exchange rates of $2.2 million, sales to this market increased 7.4% year-on-year to $91.2 million. Sales of composite products to wind energy applications showed strong double-digit revenue gains this quarter compared to both the first quarter and the fourth quarters of 2004 and led the overall growth of the industrial market segment due to both the underlying growth in global wind turbine installations and share gains the Company made in 2004. The Company continues to anticipate significant growth from wind energy applications for the full year of 2005 compared to 2004 that will drive the overall growth in its Industrial segment this year.

Demand for the Company's reinforcement fabrics used in ballistics applications remains robust, with the current quarter down slightly from the first and the fourth quarters of 2004 but within the range of our quarterly variability. With the growth in aerospace demand, availability of carbon fiber for non-aerospace applications continued to tighten and as a result constant currency revenues from products used in recreational and other industrial applications were about 3% lower than in the first quarter of 2004. All major carbon fiber suppliers have announced expansion plans which should benefit availability in the medium term.

Space & Defense: Net sales to this market for the first quarter of 2005 were $49.2 million, a decrease of $2.4 million, or 4.7%, when compared to the first quarter of 2004. On a constant foreign currency basis, net sales to this market of $48.4 million were down $3.2 million, or 6.2%, year-on-year. The first quarter of 2004 was the last quarter in which the Company recognized revenues from the Comanche program which terminated in March of 2004. Sales to the Comanche program were $3.8 million in the first quarter of 2004. Excluding these sales, first quarter 2005 revenues to this market were up 1% in constant currency over the same quarter of last year. The Company's revenues from military and space programs tend to vary from quarter to quarter more than revenues from programs in other market segments, due to customer ordering patterns and the timing of manufacturing campaigns.

Electronics: Net sales of $16.8 million for the first quarter of 2005 were $1.0 million, or 6.3%, higher than the net sales of $15.8 million for the first quarter of 2004. If adjusted for the $0.2 million favorable impact of exchange rates, revenues to this market would have been $16.6 million in the first quarter of 2005, an increase of 5.1% over the same period a year ago. While the Company remains focused on high-technology and specialty applications for its electronic materials and is targeting further growth in this market, future performance in this market segment remains difficult to predict.

Gross Margin: Gross margin for the first quarter of 2005 was $65.8 million, or 22.6% of net sales, compared with $54.6 million, or 20.8% of net sales, for the same period last year. The increase in gross margin reflects the contribution of higher net sales, the mix of those sales and the continuing benefits obtained from the Company's cost reduction programs partially offset by higher raw material and utility costs. Depreciation expense for the first quarter of 2005 was $12.3 million compared to $13.3 million in the first quarter of 2004.

Selling, General and Administrative Expenses ("SG&A"): SG&A expenses of $26.6 million for the first quarter of 2005 were $1.1 million higher than the first quarter of 2004. SG&A expenses were 9.2% of net sales in the first quarter of 2005 compared to 9.7% of net sales in the first quarter of 2004. The year-over year increase in SG&A expenses partly reflects the impact of higher foreign exchange rates of approximately $0.5 million, as the U.S. dollar has weakened against the British pound and Euro since the end of the first quarter of 2004. The Company continues to closely monitor its SG&A spending in order to achieve its desired operating leverage during a period of anticipated net sales growth.

Research and Technology Expenses ("R&T"): R&T expenses for the first quarter of 2005 were $5.7 million, or 2.0% of net sales, compared with $4.9 million, or 1.9% of net sales, for the first quarter of 2004. The year-over-year quarterly increase in R&T expenses reflects the Company's increased spending in support of new products and new commercial aircraft qualification activities, and the impact of changes in foreign currency exchange rates.

Operating Income: Operating income was $32.9 million, or 11.3% of net sales, in the first quarter of 2005, compared with $23.7 million, or 9.0% of net sales, in the first quarter of 2004. The year-over-year increase in operating income was driven by higher net sales and gross margin, and reflects the positive impact of the Company's ongoing cost containment initiatives. Business consolidation and restructuring expenses of $0.4 million in the first quarter of 2005 were down slightly compared to the $0.5 million of expenses in the first quarter of 2004.

Non-Operating Expense, Net: During the first quarter of 2005, the Company refinanced substantially all of its debt. In connection with the refinancing, the Company recorded a loss on early retirement of debt of $40.3 million during the first quarter of 2005, consisting of tender offer and call premiums of $25.2 million, the write-off of unamortized deferred financing costs and original issuance discounts of $10.3 million, transaction costs of $1.2 million in connection with the refinancing, and a loss of $3.6 million related to the cancellation of interest rate swap agreements.

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

In addition, during the first quarter of 2004, the Company repurchased $10.0 million principal amount of its 9.75% senior subordinated notes due 2009, recognizing a $0.7 million loss on the early retirement of debt. The loss resulted from the premium paid, as well as the write-off of related unamortized deferred financing costs and original issuance discount.

For further information, see Notes 2, 6, 8 and 11 to the accompanying notes to the condensed consolidated financial statements.

Interest Expense: Interest expense was $11.9 million for the first quarter of 2005, compared to $12.4 million for the first quarter of 2004. Included in interest expense in the first quarter of 2005 was an additional expense of $1.0 million, net of interest income, due to the lag between the issuance on February 1, 2005 of the 6.75% senior subordinated notes due 2015 and the partial redemption of the 9.75% senior subordinated notes on March 3, 2005. The Company expects to begin fully reflecting the benefits of lower interest rates resulting from its first quarter 2005 refinancing in the second quarter of 2005 and that its interest expense will be about $4 million lower in each of the remaining quarters of 2005 than it was in the same periods in 2004.

Provision for Income Taxes: The provisions for income taxes of $3.6 million and $3.4 million in the first quarters of 2005 and 2004, respectively, were primarily for taxes on European income. The tax benefit during the first quarter of 2005 for the loss by U.S. operations resulting from the $40.3 million loss on early retirement of debt was not reflected in the Company's tax provision for the quarter as the Company continues to adjust its tax provision rate through the establishment, or release, of a non-cash valuation allowance attributable to currently generated U.S. and Belgian net pre-tax income (losses). The Company will continue this practice until such time as the U.S. and Belgian operations, respectively, have evidenced the ability to consistently generate income such that in future years the Company can reasonably expect that the deferred tax assets can be utilized. While the performance of the Company's U.S. operations has improved significantly in recent quarters, the Company needs to evidence sustained performance in its reported results before it can conclude to reverse its valuation allowance. Until such time as it reverses some or all of the valuation allowance, the Company will continue to report earnings (losses) without a tax provision (benefit) on its U.S. pre-tax income (losses). For further information see Note 12 to the accompanying condensed consolidated financial statements.

Equity in Earnings of Affiliated Companies: Equity in earnings of affiliated companies for the first quarter of 2005 was $0.5 million, compared to $0.3 million in the first quarter of 2004. The year-over-year increase was derived from equity in earnings at TechFab LLC, a Reinforcements business segment joint venture in U.S., although at a slightly lower level than in 2004, and a reduction in equity losses at the Structures business segments' joint ventures in China and Malaysia. Equity in earnings of affiliated companies does not affect the Company's cash flows. For further information, see Note 13 to the accompanying condensed consolidated financial statements.

Deemed Preferred Dividends and Accretion: For the first quarters of 2005 and 2004, the Company recognized deemed preferred dividends and accretion of $2.3 million and $3.1 million, respectively. The year-over-year reduction in deemed preferred dividends and accretion reflects the benefit from the conversion of a portion of the mandatorily redeemable convertible preferred stock into common stock in connection with the secondary offering of the Company's common stock in December 2004.

2004 Compared to 2003

(In millions, except per share data)	Year Ended December 31, 2004	2003	2002
Net sales	**$ 1,074.5**	$ 896.9	$ 850.8
Gross margin %	**21.3%**	19.5%	19.0%
Operating income	**$ 88.8**	$ 60.0	$ 60.2
Operating income %	**8.3%**	6.7%	7.1%
Non-operating (income) expense, net	**$ 2.2**	$ 2.6	$ (10.3)
Provision for income taxes (a)	**$ 11.2**	$ 13.5	$ 11.3
Equity in earnings (losses) of and write-downs of an investment in affiliated companies	**$ 1.1**	$ (1.4)	$ (10.0)
Net income (loss)	**$ 28.8**	$ (11.1)	$ (13.6)
Deemed preferred dividends and accretion	**$ (25.4)**	$ (9.6)	$
Net income (loss) available to common shareholders	**$ 3.4**	$ (20.7)	$ (13.6)
Diluted net income (loss) per common share	**$ 0.08**	$ (0.54)	$ (0.35)

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

Net Sales: Consolidated net sales of $1,074.5 million for 2004 were $177.6 million, or 19.8% higher than the $896.9 million of net sales for 2003. The increase came from growth in the Company's revenues from all four of its major market segments along with a favorable impact from changes in foreign currency exchange rates. Had the same U.S. dollar, British pound sterling and Euro exchange rates applied in 2004 as in 2003 ("in constant currency"), consolidated net sales for 2004 would have been $149.2 million higher than the 2003 net sales of $896.9 million at $1,046.1 million.

The following table summarizes net sales to third-party customers by business segment and end market segment in 2004 and 2003:

	Unaudited				
(In millions)	**Commercial Aerospace**	**Industrial**	**Space & Defense**	**Electronics**	**Total**
2004 Net Sales					
Reinforcements	$ 64.6	$ 193.0	$	$ 61.8	$ 319.4
Composites	337.6	164.1	182.2		683.9
Structures	60.3		10.9		71.2
Total	$ 462.5	$ 357.1	$ 193.1	$ 61.8	$ 1,074.5
	43%	33%	18%	6%	100%
2003 Net Sales					
Reinforcements	$ 51.1	$ 128.9	$	$ 52.8	$ 232.8
Composites	273.6	146.0	165.2		584.8
Structures	65.2		14.1		79.3
Total	$ 389.9	$ 274.9	$ 179.3	$ 52.8	$ 896.9
	43%	31%	20%	6%	100%

Unaudited

Commercial Aerospace: Net sales to the commercial aerospace market segment increased by $72.6 million or 18.6% to $462.5 million for 2004 as compared to net sales of $389.9 million for 2003. In constant currency, net sales to the commercial aerospace market segment increased $63.9 million, or 16.4%, to $453.8 million. In constant currency, the net sales by the Reinforcements business segment were $62.5 million, up 22.3% from 2003. The net sales of Composites business segment in constant currency were $331.0 million, up 21.0% from 2003. There was no exchange rate impact on sales by the Structures business segment. The net sales of the Structures business segment to commercial aerospace applications declined by $4.9 million or 7.5% to $60.3 million as fabrication of composite structures continued to be transferred to the Asian Composites and BHA Aero joint ventures.

In the second half of 2004, the Company saw the benefit of the announcements by Boeing and Airbus that they will increase the number of aircraft they manufacture and deliver in 2005 and 2006 compared to 2004. As the Company delivers its products on average six months ahead of when its customers deliver their aircraft, this resulted in increased commercial aerospace revenues in the second half of 2004 compared to the second half of 2003. The Company has also benefited from the favorable mix of aircraft being manufactured by its customers that utilize more composite materials and the ramp up of production related to the new Airbus A380 program.

The primary near term driver of Hexcel's commercial aerospace revenues is the number of new large commercial aircraft manufactured. In 2004, Boeing delivered 285 aircraft compared to 281 in 2003. Airbus delivered 320 aircraft in 2004, up from 305 aircraft in 2003. Both Boeing and Airbus have announced they anticipate higher deliveries in 2005. Industry and Wall Street analysts project deliveries increasing 10-15% in 2005 compared to 2004 with further increases anticipated in 2006. The improved demand for new large commercial aircraft is being driven by growth in passenger traffic, particularly in Asia and Europe, requiring airlines to expand their fleets. Increases in oil prices are also reported to be encouraging airlines to purchase newer more fuel efficient aircraft. As Hexcel delivers its materials on average six months ahead of the delivery of an aircraft, the growth in Hexcel's revenues leads the growth in aircraft deliveries.

Over time, the Company's commercial aerospace revenues expand as the average composite content of large commercial aircraft increases. With each successive generation of large commercial aircraft, the aircraft manufacturers have increased the proportion of composites used in the manufacture of the airframe compared to traditional materials. In 2004, Hexcel's average sales per aircraft benefited from its sales to the Airbus A380 program ahead of its testing and certification programs in 2005 and the first deliveries anticipated in 2006. The A380 is both the largest commercial aircraft yet built and has the highest composite content of any aircraft in production at 23% by weight. The Company's revenues from the A380 program are expected to continue to grow in 2005.

Industrial: Net sales of $357.2 million for 2004 increased by $82.3 million, or 29.9%, compared to net sales of $274.9 million in 2003. In constant currency, net sales to the industrial market segment increased $69.3 million or 25.2%, to $344.2 million on strong growth in reinforcement fabrics used in military body armor and other ballistic applications. Sales of composite materials used in recreational products and in wind energy applications also increased year-on-year. Revenues from other industrial applications, including architectural and automotive segments, showed mixed results.

The Company's sales of reinforcement fabrics used in ballistic applications increased 63.7% compared to 2003 as the Company's customers received additional orders from the U.S. military services. Conditions remain favorable for demand for the Company's ballistic products to continue at current levels in 2005. Supply of the fibers used in the manufacture of reinforcement fabrics for these applications is now capacity limited and may constrain growth in revenues above current levels.

Sales in composite materials used to manufacture wind turbine blades grew 54% compared to 2003. Global installed wind generating capacity continued to grow in 2004 despite a lower rate of installation in the U.S. due to the expiration of the production tax credit ("PTC"). Congress renewed the PTC on September 28, 2004 which is anticipated to spur increased installations in 2005. The Company's customers are based in Europe and install new wind turbines worldwide. The Company's revenues from wind energy applications grew in 2004 as a result of both the growth in installations but also share gains at two key customers. These factors are anticipated to again result in double digit percentage growth in revenues in 2005, leading the growth in Hexcel's industrial market segment.

While sales of composite products to recreational applications grew in 2004, the tightening in the supply of carbon fiber, particularly as commercial aerospace demand increases, is restricting the available supply of carbon fiber to industrial markets including recreation and affecting the Company's and other producers ability to supply products for these applications. These trends are anticipated to restrain the growth of revenues from recreational applications in 2005.

Space & Defense: Net sales of $193.0 million increased $13.7 million, or 7.6%, for 2004 as compared to net sales of $179.3 million for 2003. On a constant currency basis, net sales to the space & defense market segment increased $8.5 million, or 4.7%, to $187.8 million. The year-on-year growth was led by increased production of the F-22 Raptor, and higher demand for many U.S. and European helicopter and helicopter blade replacement programs, despite the cancellation of the Comanche helicopter program during the first quarter of 2004. Sales to the Comanche program were $4.4 million and $13.5 million during 2004 and 2003, respectively.

The Company continues to benefit from its extensive qualifications to supply composite materials and, in some cases, composite structures to a broad range of military aircraft and helicopter programs, including the F/A-18E/F (Hornet), the F-22 (Raptor), the European Fighter Aircraft (Typhoon), the C-17, the V-22 (Osprey) tilt rotor aircraft, and the Blackhawk, the Tiger and the NH90 helicopters. In addition, the EADS A400M military transport aircraft and the F-35 (joint strike fighter or JSF) are currently under development and should enter low rate initial production later in the decade. While there has been media speculation associated with the 2005 quadrennial review by the U.S. Department of Defense that there will be reductions in procurement of certain programs, such changes, if made, will not impact 2005 revenues. Further, such changes, if they occur, will likely be more than offset by the benefit of new programs such as the A400M and the F-35.

Space applications for advanced structural materials include solid rocket booster cases; fairings and payload doors for launch vehicles; and buss and solar arrays for military and commercial satellites. The production of both launch vehicles and satellites has declined earlier in the decade from a peak in the late 1990s, but has been relatively stable in 2004 versus 2003.

The revenues that the Company derives from military and space programs tend to vary quarter to quarter based on customer ordering patterns and manufacturing campaigns.

Electronics: Net sales of $61.8 million in 2004 increased $9.0 million, or 17.0%, as compared to net sales of $52.8 million for 2003. On a constant currency basis, net sales to the electronics market segment increased $7.5 million, or 14.2%, to $60.3 million. The Company's focus on advanced technology materials and specialty applications, together with some recovery in industry demand, contributed to enhanced performance in this market segment during 2004. While the Company remains focused on high-technology and specialty applications for its electronic materials and is targeting further growth in this market, future performance in this segment remains difficult to predict.

Gross Margin: Gross margin for 2004 was $229.1 million, or 21.3% of net sales, compared to gross margin of $174.5 million, or 19.5% of net sales, in 2003. The $54.6 million year-on-year improvement in gross margin on increased sales of $177.6 million was a 30.7% incremental margin. The improvement reflected the impact of the contribution from higher net sales and the Company's efforts to sustain the reductions it obtained in its fixed costs as a result of its prior restructuring initiatives.

Selling, General and Administrative ("SG&A") Expenses: SG&A expenses were $113.1 million, or 10.5% of net sales, for 2004 compared with $95.0 million, or 10.6% of net sales, for 2003. The increase in SG&A expenses reflects, among other factors, a $2.3 million provision against accounts receivable from Second Chance Body Armor following their Chapter 11 bankruptcy filing on October 17, 2004, $4.1 million in implementation and first year audit fees related to Section 404 of the Sarbanes-Oxley Act, higher incentive compensation, transaction expenses of $1.1 million related to the secondary offering of the Company's common stock in December 2004 and the impact of higher foreign currency exchange rates.

Research and Technology ("R&T") Expenses: R&T expenses for 2004 were $21.3 million, or 2.0% of net sales, compared with $17.7 million, or 2.0% of net sales, for 2003. The $3.6 million increase was due to, among other factors, increased spending in support of new products and new commercial aircraft qualification activities as well as the impact of higher foreign currency exchange rates.

Other Income (Expense), Net: Other expense, net for 2004 was $3.0 million compared to other income of $2.2 million in 2003. During 2004, the Company recorded an accrual of $7.0 million in connection with a stipulation of settlement for the same amount, signed with the plaintiffs on September 30, 2004, in the ongoing carbon fiber federal class action case. The settlement was approved by the court on January 31, 2005 and the Company paid the settlement amount in full. The Company denied and continues to deny the allegations in this case, but believes that the costs of continuing defense outweighed the costs of settlement. In addition, the Company sold surplus land at one of its U.S. manufacturing facilities for net cash proceeds of $6.5 million and recognized a net $4.0 million gain on the sale. During 2003, the Company sold certain assets of its Structures business segment for net cash proceeds of $5.7 million, recognizing a net gain of $2.2 million. Refer to Note 21 to the accompanying consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2004.

Operating Income: Operating income for 2004 was $88.8 million, or 8.3% of net sales, compared with operating income of $60.0 million, or 6.7% of net sales, for 2003. The increase in operating income was driven by increased net sales within commercial aerospace and industrial market applications and a higher gross margin, which was partially offset by higher SG&A and R&T expenses as well as Other Expense described above. Business consolidation and restructuring expenses were $2.9 million in 2004, compared to $4.0 million in 2003.

Operating income for the Reinforcements business segment increased $23.5 million, as compared with 2003, to $39.7 million. The improvement in operating income was driven by the operating leverage of higher sales revenues coupled with continued control of overhead spending. With growth in all markets, Reinforcement revenues were 37.2% higher than in 2003. The Composites segment's operating income increased $22.3 million in 2004 to $89.1 million. Year-on-year sales growth of 16.9% together with cost control drove this improvement. The Structures segment's operating income decreased by $0.4 million compared with 2003 to $3.8 million, primarily reflecting the 2003 gains of $2.2 million from the sale of certain assets. During the year, the business segment continued the process of transferring the fabrication of composite components to its BHA Aero and Asian Composites joint ventures. The changing pattern of work performed in the business segment's U.S. facilities improved profitability, despite lower sales revenues.

The Company did not allocate corporate operating expenses of $43.8 million and $27.2 million to operating segments in 2004 and 2003, respectively. The year-on-year increase in corporate operating expenses of $16.6 million includes $4.1 million for the implementation and first year professional fees related to Section 404 of the Sarbanes-Oxley Act, $3.1 million for incentive compensation, $7.0 million related to a litigation settlement and $1.1 million of expenses related to the secondary offering of the Company's common stock in December 2004.

Interest Expense: Interest expense for 2004 was $47.7 million compared to $53.6 million for 2003. The $5.9 million decline in interest expense reflected lower outstanding debt resulting primarily from the redemption of $44.8 million of its senior subordinated notes during the year together with the benefit of interest rate swap agreements. During 2003, the Company lowered its outstanding debt by $138.3 million, reducing cash interest expense by $6.7 million. Refer to Note 16 to the accompanying consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2004.

Non-Operating (Income) Expense, Net: Non-operating expense, net for 2004 was $2.2 million compared to $2.6 million in 2003. During 2004, the Company recognized a $3.2 million loss on the early retirement of debt resulting primarily from the redemption of $44.8 million of its senior subordinated notes during the year. The loss was partially offset by a $1.0 million gain attributable to the sale of securities obtained through a de-mutualization of an insurance company.

During 2003, the Company recognized net non-operating expense of $2.6 million. In connection with the refinancing of its capital structure in the first quarter of 2003, the Company incurred a $4.0 million loss on the early retirement of debt due to the write-off of unamortized deferred financing costs relating to the former senior credit facility and the 7% convertible subordinated notes due 2003. This loss was partially offset by a $1.4 million gain attributable to a prior business sale, which occurred in April 2000. Pursuant to the sale agreement, Hexcel retained a contingent obligation for certain customer warranty claims, which expired in the second quarter of 2003. As a result, the Company reversed the $1.4 million contingent liability established at the time of the sale. Refer to Note 23 to the accompanying consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2004.

Provision for Income Taxes: The provisions for income taxes of $11.2 million and $13.5 million for 2004 and 2003, respectively, were primarily for taxes on European income and included a non-cash valuation allowance of $4.7 million in 2003 on a deferred tax asset previously recognized by the Company's Belgian subsidiary. The Company will continue to adjust its tax provision rate through the establishment, or release, of a non-cash valuation allowance attributable to currently generated U.S. and Belgian net operating income (losses) until such time as the U.S. and Belgian operations, respectively, generate sufficient taxable income to utilize the net operating losses in full. For additional information, see Note 13 to the accompanying consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2004.

Equity in Earnings (Losses) of Affiliated Companies: Equity in earnings of affiliated companies was $1.1 million in 2004 as compared to an equity loss of $1.4 million in 2003. The year-over-year improvement resulted from higher equity in earnings reported by TechFab, the Reinforcements business segment's joint venture, and lower equity in losses associated with the Structures business segment's joint ventures in China and Malaysia. Equity in earnings (losses) of affiliated companies does not affect the Company's cash flows. With the benefit of additional fabrication work being transferred to the Asian joint ventures and higher commercial aircraft production rates, it is anticipated that the financial performance of the China and Malaysia joint ventures will continue to improve in 2005.

Equity in losses of affiliated companies of $1.4 million in 2003 primarily reflected losses reported by the Structures business segment's BHA Aero and Asian Composites joint ventures as they continued to ramp up production of aerospace composite structures, partially offset by equity in earnings of TechFab.

During 2003, the Company exercised its option to sell its remaining interest in ASCO for $23.0 million in cash, and also sold its equity interest in its European reinforcement products joint venture, Interglas, for a nominal amount in conjunction with a bank sponsored financial restructuring of the affiliated company. No gains or losses were recorded as a result of these transactions, as the Company had previously written-down the carrying value of its remaining equity investment in ASCO to its estimated fair market value of $23.0 million in 2002 and had recognized a full impairment of its remaining equity interest in Interglas in 2001.

Deemed Preferred Dividends and Accretion: The Company recognized deemed preferred dividends and accretion of $25.4 million and $9.6 million for 2004 and 2003, respectively. Included in deemed preferred dividends and accretion for 2004 is an accelerated charge of $12.9 million resulting from the conversion of a portion of mandatorily redeemable convertible preferred stock into common stock in connection with the secondary offering of the Company's common stock in December 2004. Until such time as the remaining mandatorily redeemable convertible preferred stock is converted to Hexcel common stock or redeemed, the accretion of certain deductio ns for accrued dividends, discount, beneficial conversion feature, and deferred issuance costs will be reported as a reduction of net income (loss) in arriving at net income (loss) available to common shareholders. Deemed preferred dividends and accretion is a non-cash expense at the time of recognition. For additional information, see Note 10 to the accompanying consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2004.

Net Income (Loss) Available to Common Shareholders and Net Income (Loss) Per Common Share:

(In millions, except per share data)	**2004**	**2003**
Net income (loss) available to common shareholders	**$3.4**	$(20.7)
Diluted net income (loss) per common share	**$0.08**	$(0.54)
Diluted weighted average shares outstanding	**42.1**	38.6

The Company's convertible subordinated debentures, due 2011, and mandatorily redeemable convertible preferred stock were excluded from the computation of diluted net income (loss) per common share for the years ended December 31, 2004 and 2003 as they were anti-dilutive. A portion of the Company's stock options were excluded from the computation of diluted net income per common share for the year ended December 31, 2004 and all of the Company's stock options and restricted stock were excluded from the computation of diluted net loss per common share for the year ended December 31, 2003 as they were anti-dilutive. In addition, the Company's convertible subordinated notes, due 2003, were excluded from the computation of diluted net loss per common share for the year ended December 31, 2003. The convertible subordinated notes, due 2003, were repaid in full on March 19, 2003. For additional information, see Notes 14 and 15 to the accompanying consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2004.

Business Consolidation and Restructuring Programs

Business consolidation and restructuring liabilities as of March 31, 2005 and December 31, 2004, and activity for the quarter ended March 31, 2005, consisted of the following:

(In millions)	Employee Severance	Facility & Equipment	Total
Balance as of December 31, 2004	$ 3.3	$ 1.0	$ 4.3
Current period expenses	0.2	0.2	0.4
Cash expenditures	(0.6)	(0.2)	(0.8)
Currency translation adjustments	(0.1)		(0.1)
Balance as of March 31, 2005	**$ 2.8**	**$ 1.0**	**$ 3.8**

Livermore Program

In the first quarter of 2004, the Company announced its intent to consolidate the activities of its Livermore, California facility into its other facilities, principally the Salt Lake City, Utah plant. For the quarter ended March 31, 2005, the Company recognized $0.2 million of expense for employee severance based on the remaining employee service periods. Costs associated with the facility's closure, along with costs for relocation and re-qualification of equipment, are expected to occur over several years.

There were no cash expenditures for this program during the first quarter of 2005. The accrued liability balance was $1.0 million as of March 31, 2005.

November 2001 Program

In November 2001, the Company announced a program to restructure its business operations as a result of its revised business outlook for build rate reductions in commercial aircraft production and due to depressed business conditions in the electronics market. For the quarter ended March 31, 2005, the Company recognized business consolidation and restructuring expenses of $0.2 million related to this program for equipment relocation and re-qualification costs that are expensed as incurred. Cash expenditures for this program were $0.8 million during the first quarter of 2005, leaving an accrued liability balance of $2.8 million as of March 31, 2005.

Financial Condition

Liquidity: During the first quarter of 2005, the Company refinanced substantially all of its long-term debt. In connection with the refinancing, the Company entered into a new $350.0 million senior secured credit facility (the "New Facility"), consisting of a $225.0 million term loan and a $125.0 million revolving loan. In addition, the Company issued $225.0 million principal amount of 6.75% senior subordinated notes due 2015. The New Facility replaced the Company's existing $115.0 million five-year secured revolving credit facility. The terminated credit facility was scheduled to expire on March 31, 2008. The term loan under the New Facility is scheduled to mature on March 1, 2012 and the revolving loan under the New Facility is scheduled to expire on March 1, 2010.

As of March 31, 2005, the Company had cash and cash equivalents of $26.2 million. Aggregate borrowings as of March 31, 2005 under the New Facility were $252.0 million, consisting of $225.0 million of term loans and $27.0 million of revolver loans. The New Facility permits the Company to issue letters of credit up to an aggregate amount of $40.0 million. Any outstanding letters of credit reduce the amount available for borrowing under the revolving loan. As of March 31, 2005, the Company had issued letters of credit under the New Facility totaling $8.9 million. Undrawn availability under the New Facility was $89.1 million as of March 31, 2005.

In addition, Hexcel has 20.0 million Euros of borrowing capacity available under an accounts receivable factoring facility at its French operating subsidiaries, and various European credit and overdraft facilities, which could be utilized to meet short-term working capital and operating cash requirements. As of March 31, 2005, the Company did not have any outstanding accounts receivable factored under this facility. The European credit and overdraft facilities are uncommitted lines and can be terminated at the option of the lender.

As of March 31, 2005, the Company's total debt, net of cash, was $456.8 million, an increase of $82.6 million from $374.2 million as of December 31, 2004. The increase in net debt reflects the impact of (i) cash costs of $41.8 million incurred by the Company in the first quarter of 2005 in implementing its debt refinancing, (ii) accrued interest expense being $9.7 million lower as of March 31, 2005 than it would have been had the Company not undertaken the refinancing, (iii) the recapitalization of BHA Aero (the Company's Chinese joint venture) with a cash equity investment of $7.5 million, (iv) the Company's payment of $7.0 million plus accrued interest related to its settlement of the carbon fiber federal class action case accrued for in 2004, and (v) the remaining cash usage during the quarter of $16.6 million. Historically, the Company uses cash in the first quarter of the year as working capital traditionally increases from the seasonal December low levels, and as a result of the timing of bond coupon payments and from the annual payment of compensation, incentive and benefit accruals. The Company historically generates cash in the subsequent three quarters of the year.

For further information, see Notes 2 and 6 to the accompanying condensed consolidated financial statements.

Operating Activities: Net cash used for operating activities was $26.3 million in the first quarter of 2005, as compared to net cash provided by operating activities of $2.7 million in the first quarter of 2004. The year-over year increase in net cash used by operations reflects the payment in the first quarter of 2005 of $7.0 million related to the settlement of the carbon fiber federal case action suit accrued for in 2004, the $9.7 million reduction in accrued interest expense as a result of the refinancing, working capital growth and annual payments for incentive compensation and benefit payments. Historically, the Company uses cash in the first quarter of the year as working capital traditionally increases from the seasonal December low levels, and as a result of the timing of bond coupon and annual incentive compensation and benefit payments. The Company historically generates cash in the subsequent three quarters of the year.

Investing Activities: Net cash used for investing activities was $15.0 million in the first quarter of 2005 compared with $4.5 million used in the first quarter of 2004. During the first quarter of 2005, the Company made a $7.5 million equity investment in its BHA Aero joint venture located in Tianjin, China, increasing its equity ownership position in the joint venture from 33.33% to 40.48%. Capital expenditures were $7.5 million for the first quarter of 2005 compared to $4.5 million in the same period last year. With continued focus on productivity improvements and the incremental capacity requirements required by revenue growth, the Company anticipates that cash used for capital expenditures will be at about the level of depreciation expense for the full year of 2005.

Financing Activities: Financing activities provided $9.4 million of net cash in the first quarter of 2005. During the first quarter of 2005, the Company refinanced substantially all of its long-term debt. In connection with the refinancing, the Company entered into a new $350.0 million senior secured credit facility (the "New Facility"), consisting of a $225.0 million term loan and a $125.0 million revolving loan. Borrowings as of March 31, 2005 under the New Facility were $252.0 million, consisting of $225.0 million of term loans and $27.0 million of revolver loans. In addition, the Company issued $225.0 million principal amount of 6.75% senior subordinated notes due 2015. The New Facility replaced the Company's existing $115.0 million five-year secured revolving credit facility. Proceeds from the New Facility and the new senior subordinated notes were used to redeem $285.3 million principal amount of the 9.75% senior subordinated notes due 2009, repurchase $125.0 million principal amount of the 9.875% senior secured notes due 2008, redeem $19.2 million principal amount of the 7.0% convertible subordinated debentures due 2011, and pay $41.8 million of cash transaction costs related to the refinancing.

Net cash used for financing activities was $16.1 million in the first quarter of 2004. During the first quarter of 2004, the Company utilized excess cash to repay $3.4 million of borrowings under the senior secured credit facility, to repurchase at a premium $10.0 million principal amount of its 9.75% senior subordinated notes, due 2009, and to repay other long-term debt and capital lease obligations of $1.8 million.

Financial Obligations and Commitments: As of March 31, 2005, current maturities of notes payable and capital lease obligations were $4.6 million. With the benefit of the Company's debt refinancing in the first quarter of 2005, the Company's next significant scheduled debt maturity will not occur until 2010, with annual debt and capital lease maturities ranging from $2.5 million to $4.0 million prior to 2010. Short-term debt obligations include $2.1 million of drawings under European credit and overdraft facilities, $0.1 million due under capital lease obligations, and $1.7 million of required principal amortization under the term loan portion of the New Facility. The European credit and overdraft facilities provided to certain of the Company's European subsidiaries by lenders outside of the senior secured credit facility are primarily uncommitted facilities that are terminable at the discretion of the lenders. The Company has entered into several capital leases for buildings and warehouses with expirations through 2012. In addition, certain sales and administrative offices, data processing equipment and manufacturing facilities are leased under operating leases.

The New Facility permits the Company to issue letters of credit up to an aggregate amount of $40.0 million. Any outstanding letters of credit reduce the amount available for borrowing under the revolving loan. As of March 31, 2005, the Company had issued letters of credit under the New Facility totaling $8.9 million. Undrawn availability under the New Facility was $89.1 million as of March 31, 2005. The term loan under the New Facility is scheduled to mature on March 1, 2012 and the revolving loan under the New Facility is scheduled to expire on March 1, 2010. For further information, see Notes 2, 6 and 8 to the accompanying condensed consolidated financial statements.

During the first quarter of 2005, the Company issued $225.0 million principal amount of 6.75% senior subordinated notes. The senior subordinated notes mature on February 1, 2015.

Total letters of credit issued and outstanding were $11.4 million as of March 31, 2005. Approximately $8.9 million of these letters of credit were issued under the revolving credit portion of the New Facility, with the remaining $2.5 million issued separately from this credit facility. While the letters of credit issued on behalf of the Company will expire under their terms in 2005 and 2006, all of these will likely be re-issued.

During the first quarter of 2005, Hexcel entered into a reimbursement agreement with Boeing and AVIC in connection with the recapitalization of BHA Aero. The reimbursement agreement provides that Hexcel would reimburse Boeing and AVIC for a proportionate share of the losses they would incur if their guarantees of the new bank loan were to be called, up to a limit of $6.1 million. In addition, during the first quarter of 2005, Hexcel entered into a letter of awareness, whereby Hexcel became contingently liable to pay under certain circumstances Dainippon Ink and Chemicals, Inc up to $1.8 million with respect to DIC-Hexcel Ltd's new debt obligations.

As of March 31, 2005, Hexcel has outstanding 101,084 shares of a series A convertible preferred stock and 47,125 shares of a series B convertible preferred stock, which are mandatorily redeemable on January 22, 2010 generally for cash or for common stock at the Company's discretion, unless the holder elects to take a lesser amount in cash, and under certain circumstances must be redeemed for cash. Commencing on March 19, 2006, holders of the series A convertible preferred stock will be entitled to receive dividends at an annual rate of 6% of the "accrued value." Accrued value is calculated as an amount equal to the sum of $1,195.618 per share and the aggregate of all accrued but unpaid dividends. Dividends are payable quarterly and may be paid in cash or added to the accrued value of the preferred stock, at the Company's option. The series B preferred stock does not accrue dividends. With respect to any dividend that the Company elects to pay by adding the amount of such dividend to the accrued value, if the payment date for such dividend is after a "dividend termination event" has occurred, a holder of series A preferred stock will not receive such dividend if either (i) such holder elects to convert its preferred stock into common stock at any time, or (ii) such holder's series A preferred stock is automatically converted into common stock as a result of a "mandatory conversion event." A "dividend termination event" means that the closing trading price of the common stock for any period of 60 consecutive trading days ending after March 19, 2006 exceeds $6.00 per share. 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 (a "mandatory conversion event").

The following table summarizes the maturities of financial obligations and expiration dates of commitments as of March 31, 2005, for the remaining nine months of 2005, for the years ended 2006 through 2009 and thereafter:

(In millions)	Remaining Nine Months of 2005	2006	2007	2008	2009	Thereafter	Total
Senior secured credit facility revolver due 2010	$	$	$	$	$	$ 27.0	**$ 27.0**
Senior secured credit facility term B loan due 2012	1.7	2.2	2.3	2.2	2.3	214.3	**225.0**
European credit and overdraft Facilities	2.1						**2.1**
6.75% senior subordinated notes due 2015						225.0	**225.0**
Capital leases	0.1	0.3	0.3	0.4	0.4	2.4	**3.9**
Subtotal	3.9	2.5	2.6	2.6	2.7	468.7	**483.0**
Operating leases	4.4	4.8	3.2	2.3	1.9	6.5	**23.1**
Total financial obligations	$ 8.3	$ 7.3	$ 5.8	$ 4.9	$ 4.6	$ 475.2	**$ 506.1**
Letters of credit	$ 11.4	$	$	$	$	$	**$ 11.4**
Interest payments	17.0	27.6	27.5	27.4	27.2	107.6	**234.3**
Benefit plan contributions	4.3						**4.3**
Other commitments	7.9						**7.9**
Total commitments	$ 40.6	$ 27.6	$ 27.5	$ 27.4	$ 27.2	$ 107.6	**$ 257.9**

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

For further information regarding the Company's financial resources, obligations and commitments, see Notes 2, 6 and 16 to the accompanying condensed consolidated financial statements and Notes 2, 8, 9, 10 and 17 to the consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2004.

Critical Accounting Policies

For information regarding the Company's critical accounting policies, refer to the Company's 2004 Annual Report on Form 10-K.

Recently Issued Accounting Policies

On April 14, 2005, the SEC approved a new rule that delays the effective date of FASB Statement No. 123(R), "Share Based Payment." The delay in the effective date gives companies more time to develop their valuation and record keeping methodology and prepare for implementation. For most public companies, it will also eliminate the comparability issues that would have arisen from adopting FAS 123(R) in the middle of their fiscal years as originally required.

Under the SEC's rule, FAS 123(R) is now effective for public companies for annual periods, rather than interim periods, which begin after June 15, 2005. The effect for calendar year companies is a six-month deferral of the new standard. In accordance with the new ruling, the standard is now effective for Hexcel beginning January 1, 2006.

BUSINESS

General

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

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

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

Narrative Description of Business and Business Segments

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

Reinforcements

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

BUSINESS SEGMENT	PRODUCTS	PRIMARY END USE
REINFORCEMENTS	Industrial Fabrics and Specialty Reinforcements	Structural materials and components used in aerospace, defense, wind energy, automotive, marine, recreation and other industrial applications Raw materials for prepregs and honeycomb Soft body armor and other security applications Electronic applications, primarily high-technology printed wiring board substrates Solar protection and other architectural applications Civil engineering and construction applications

Industrial Fabrics and Specialty Reinforcements: Industrial fabrics and specialty reinforcements are made from a variety of fibers, including carbon, aramid and other high strength polymers, several types of fiberglass, quartz, ceramic and other specialty fibers. These reinforcement products are used internally by Hexcel's Composites business segment in the manufacture of prepregs and other composite materials and sold to third-party customers for use in a wide range of applications, including a variety of structural materials and components used in aerospace, defense, wind energy, automotive, marine, recreation and other industrial applications, soft body armor and other security products, high-technology printed wiring boards, solar protection and other architectural products.

Composites

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

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

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

Carbon Fibers: Magnamite[nc_cad,176] carbon fibers are manufactured for sale to third party customers and for use by Hexcel in manufacturing certain reinforcements and composite materials. Carbon fibers are woven into carbon fabrics, used as reinforcement in conjunction with a resin matrix to produce prepregs and used in filament winding and advanced fiber placement to produce finished composite components. Key product applications include structural components for commercial and military aircraft, space launch vehicles, wind blade components and certain other applications such as recreational equipment.

Prepregs: HexPly[nc_cad,176] prepregs are manufactured for sale to third party customers and for use in manufacturing composite laminates and monolithic structures, including finished components for aircraft structures and interiors. Prepregs are manufactured by combining high performance reinforcement fabrics or unidirectional fibers with a resin matrix to form a composite material with exceptional structural properties not present in either of the constituent materials. Reinforcement fabrics used in the manufacture of prepregs include glass, carbon, aramid, quartz, ceramic and other specialty reinforcements. Resin matrices include bismaleimide, cyanate ester, epoxy, phenolic, polyester, polyimide and other specialty resins.

Other Fiber Reinforced Matrix Materials: New fiber reinforced matrix developments include HexMC[nc_cad,176], a carbon fiber/epoxy sheet moulding compound that enables small to medium sized composite components to be mass produced. Hexcel's HexFIT[nc_cad,176] film infusion material is a product that combines resin films and dry fiber reinforcements to save lay-up time in production and enables the manufacture of large contoured composite structures, such as wind turbine blades.

Resin Film Infusion and Resin Transfer Moulding products are enabling quality aerospace components to be manufactured using highly cost-effective processes.

Structural Adhesives: Hexcel manufactures and markets a comprehensive range of Redux[nc_cad,176] film and paste adhesives. These structural adhesives, which bond metal to metal and composites and honeycomb structures, are used in the aerospace industry and for many industrial applications.

Honeycomb, Honeycomb Parts and Composite Panels: HexWeb[nc_cad,176] honeycomb is a lightweight, cellular structure generally composed of nested hexagonal cells. The product is similar in appearance to a cross sectional slice of a beehive. It can also be manufactured in asymmetric cell configurations for more specialized applications. Honeycomb is primarily used as a lightweight core material and acts as a highly efficient energy absorber. When sandwiched between composite or metallic facing skins, honeycomb significantly increases the stiffness of the structure, while adding very little weight.

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

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

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

Structures

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

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

BUSINESS SEGMENT	PRODUCTS	PRIMARY END USE
STRUCTURES	Composite Structures	Aircraft structures and finished aircraft components, including: Wing to body fairings Wing panels Flight deck panels Door liners Helicopter blade tip caps

Significant Customers

Approximately 19.3%, 22.7% and 23.9% of our 2004, 2003 and 2002 net sales, respectively, were to Boeing and related subcontractors. Of the 19.3% of sales to Boeing and its subcontractors in 2004, 13.0% related to commercial aerospace market applications and 6.3% related to space and defense market applications. Approximately 20.7%, 19.6% and 16.3% of our 2004, 2003 and 2002 net sales, respectively, were to EADS, including its business division Airbus, and its subcontractors. Of the 20.7% of sales to EADS and its subcontractors in 2004, 17.5% related to commercial aerospace market applications and 3.2% related to space and defense market applications.

Capital Expenditures

With growing demand, particularly from our commercial aerospace customers, we are expanding manufacturing capacity for certain of our product lines including carbon fiber and prepreg. In February 2005, we announced a project to increase our carbon fiber manufacturing capacity by approximately 40% to meet our customers' requirements. This investment was to be completed over a three-year period. In light of the increasing rate of growth in our customers' requirements we now plan to increase current capacity by approximately 50% and to accelerate the completion of the project. As a result, it is anticipated that the project will require an investment of approximately $100 million and that our overall capital expenditures will be approximately $65 million in 2005 and $100 million in 2006.

Legal Proceedings

Hexcel is involved in litigation, investigations and claims arising out of the normal conduct of its business, including those relating to commercial transactions, environmental, employment, health and safety matters. The Company estimates and accrues its liabilities resulting from such matters based on a variety of factors, including the stage of the proceeding; potential settlement value; assessments by internal and external counsel; and assessments by environmental engineers and consultants of potential environmental liabilities and remediation costs. Such estimates may or may not include potential recoveries from insurers or other third parties and are not discounted to reflect the time value of money due to the uncertainty in estimating the timing of the expenditures, which may extend over several years.

While it is impossible to ascertain the ultimate legal and financial liability with respect to certain contingent liabilities and claims, the Company believes, based upon its examination of currently available information, its experience to date, and advice from legal counsel, that the individual and aggregate liabilities resulting from the ultimate resolution of these contingent matters, after taking into consideration its existing insurance coverage and amounts already provided for, will not have a material adverse impact on the Company's consolidated results of operations, financial position or cash flows.

Environmental Claims and Proceedings

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

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

Pursuant to the New Jersey Industrial Site Recovery Act, Hexcel entered into a Remediation Agreement to pay for the environmental remediation of a manufacturing facility it owns and formerly operated in Lodi, New Jersey. Hexcel has commenced remediation of this site in accordance with an approved plan; however, the ultimate cost of remediating the Lodi site will depend on developing circumstances.

In October 2003, Hexcel, along with 66 other entities, received a directive from the New Jersey Department of Environmental Protection ("NJDEP") that requires the entities to assess whether operations at various New Jersey sites, including Hexcel's Lodi facility, caused damage to natural resources in the Lower Passaic River watershed. In February 2004, Hexcel received a similar general notice letter from the EPA which requests Hexcel, along with 42 other entities, to consider helping to finance an estimated $10 million EPA study of environmental conditions in the Lower Passaic River watershed. Hexcel believes it has viable defenses to the EPA and NJDEP claims and Hexcel expects that many yet unnamed parties also will receive directives and or notices from the NJDEP and EPA, respectively. Hexcel's ultimate liability, if any, under these claims cannot be determined at this time.

Hexcel was party to a cost-sharing agreement regarding the operation of certain environmental remediation systems necessary to satisfy a post-closure care permit issued to a previous owner of the Company's Kent, Washington, site by the EPA. Under the terms of the cost-sharing agreement, the Company was obligated to reimburse the previous owner for a portion of the cost of the required remediation activities. Management has determined that the cost-sharing agreement terminated in December 1998; however, the other party disputes this determination.

The Company's estimate of its liability as a PRP and its remaining costs associated with its responsibility to remediate the Lodi, New Jersey and Kent, Washington sites is accrued in the consolidated balance sheets as of December 31, 2004 and 2003, the aggregate environmental related accruals were $4.1 million and $4.0 million, respectively. As of December 31, 2004 and 2003, $1.0 million and $1.3 million, respectively, were included in accrued liabilities, with the remainder included in other non-current liabilities. As related to certain of its environmental matters, the Company's accruals were estimated at the low end of a range of possible outcomes since there was no better point within the range. If the Company had accrued for these matters at the high end of the range of possible outcomes, the Company's accruals would have been $1.6 million and $1.3 million higher at December 31, 2004 and 2003, respectively. These accruals can change significantly from period to period due to such factors as additional information on the nature or extent of contamination, the methods of remediation required, changes in the apportionment of costs among responsible parties and other actions by governmental agencies or private parties, or the impact, if any, of the Company being named in a new matter.

Environmental remediation spending charged directly to the Company's reserve balance for the years ended December 31, 2004, 2003 and 2002, was $1.0 million, $2.4 million and $1.4 million, respectively. In addition, the Company's operating costs relating to environmental compliance were $6.0 million, $4.9 million and $4.4 million, for the years ended December 31, 2004, 2003 and 2002, respectively, and were charged directly to expense. Capital expenditures for environmental matters approximated $1.1 million, $0.7 million and $0.9 million for the years ended December 31, 2004, 2003 and 2002, respectively. The Company expects the level of spending on remediation, environmental compliance and capital spending in 2005 to approximate spending levels in prior years. A discussion of environmental matters is contained in Item 3, "Legal Proceedings," and in Note 17 to the accompanying consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2004.

Other Proceedings

Hexcel has previously disclosed that the Antitrust Division of the United States Department of Justice has closed its investigation of the carbon fiber and carbon fiber prepreg industries which commenced in 1999. No indictments were handed down against the Company or any of its employees or representatives.

As a result of the investigations, in 1999 Hexcel, along with others in the industry, was joined in a class action lawsuit alleging antitrust violations in the sale of carbon fiber, carbon fiber industrial fabrics and carbon fiber prepreg (Thomas & Thomas Rodmakers, Inc. et. al. v. Newport Adhesives and Composites, Inc., et. al., Amended and Consolidated Class Action Complaint filed October 4, 1999, United States District Court, Central District of California, Western Division, CV-99-07796-GHK (CTx)). On August 26, 2004, Hexcel entered into a stipulation of settlement with the plaintiffs in the Thomas & Thomas Rodmakers, Inc. federal class action for $7.0 million. The settlement was approved by the court on January 31, 2005 and the Company has paid the settlement amount in full. Hexcel denied and continues to deny the allegations in this case, but believes that the costs of continuing defense outweighed the costs of settlement.

Of the eleven companies that have opted out of the class in the Thomas & Thomas Rodmakers, Inc. case, one, Horizon Sports Technologies, Inc., has filed a case on its own behalf, against a number of carbon fiber and carbon fiber prepreg manufacturers, including the Company, alleging antitrust violations based on price fixing and market allocation in the marketing of carbon fiber and carbon fiber prepreg products in the United States (Horizon Sports Technologies, Inc., v. Newport Adhesives and Composites, Inc., et al., No. CV-99-7796 (C.D. Cal.) (the "HST" action)). The Company has entered into statute of limitation tolling agreements with two of the opt out companies and with one co-defendant that also purchased product of the alleged conspiracy.

The Company has also been joined as a party in numerous class action lawsuits in California and in Massachusetts spawned by the Thomas & Thomas Rodmakers, Inc. class action. These actions also allege antitrust violations and are brought on behalf of purchasers located in California and in Massachusetts, respectively, who indirectly purchased carbon fiber products. The California cases have been ordered to be coordinated in the Superior Court for the County of San Francisco and are currently referred to as Carbon Fibers Cases I, II and III, Judicial Council Coordinator Proceeding Numbers 4212, 4216 and 4222. The California cases are Lazio v. Amoco Polymers Inc., et. al., filed August 21, 2000; Proiette v. Newport Adhesives and Composite, Inc. et. al., filed September 12, 2001; Simon v. Newport Adhesives and Composite, Inc. et. al., filed September 21, 2001; Badal v. Newport Adhesives and Composite, Inc. et. al., filed September 26, 2001; Yolles v. Newport Adhesives and Composite, Inc. et. al., filed September 26, 2001; Regier v. Newport Adhesives and Composite, Inc. et. al., filed October 2, 2001; and Connolly v. Newport Adhesives and Composite, Inc. et. al., filed October 4, 2001; Elisa Langsam v. Newport Adhesives and Composites, Inc, et. al., filed October 4, 2001; Jubal Delong et. al. v. Amoco Polymers, Inc. et. al., filed October 26, 2001; and Louis V. Ambrosio v. Amoco Polymers, Inc. et. al., filed October 25, 2001. The Massachusetts case is Ostroff v. Newport Adhesives and Composites, Inc. et. al., filed June 7, 2002 in the Superior Court Department of the Trial Court of Middlesex, Massachusetts, Civil Action No. 02-2385. The Company has agreed to settle all such suits for nonmaterial amounts subject to formal documentation and court formalities.

Also as previously reported, certain executives of Horizon Sports Technologies, Inc. in 1999 filed as relators on behalf of the U.S. Government, under seal, a qui tam action alleging that certain carbon fiber and carbon fiber prepreg manufacturers, including the Company, submitted claims for payment to the U.S. Government which were false or fraudulent as a result of the antitrust conspiracy alleged in the HST case (United States ex rel. Beck, et al., v. Hexcel Corp., et al., Civil Action No. 99-CV- 1557 (S.D. Cal.) (the "Beck" action)). The case was unsealed and served on the defendants in 2002 when the Department of Justice advised the HST executives who acted as relators that it would not intervene in the case based on the information available at that time, and the case was transferred to the Central District of California in 2005. As a result, the relators are pursuing the qui tam action on behalf of the U.S. and will receive a portion of any recoveries from the defendants approved by the U.S. and the court.

HST and the relators in the Beck case are represented by the same counsel. A trial date for the HST action has been set for February 2006. Discovery in Beck is on-going and a trial date has been set for May 2007. The Company has had recent discussions with counsel for HST and the relators regarding settlement of both actions, but no agreement has been reached. Based on public court filings in May 2005, a defendant in both the HST and Beck actions, Toho Tenax Industries (including affiliated companies), has settled the Beck action for $9.75 million, subject to receiving a refund of part of that amount if certain defendants, namely, Toray Industries Ltd. and Mitsubishi Rayon Corporation (including their respective affiliated companies), were to settle the Beck case for less than $9.75 million. Toho Tenax also entered into a confidential settlement of the HST action, which the Company believes was in amount of $2.25 million. Subsequent to the settlement by Toho Tenax and based on public court filings in July 2005, Mitsubishi Rayon Corporation (including affiliated companies) also has settled the Beck action for $10 million, subject to receiving a refund of part of that amount if Toray Industries Ltd. (including affiliated companies) were to settle the Beck case for less than $10 million. Mitsubishi Rayon also entered into a confidential settlement of the HST action, the amount of which is not known to the Company. The Company believes that two other defendants have recently agreed to settle the HST and Beck actions for undisclosed amounts subject, in the case of the Beck settlements, to approval by the U.S. Government, at which time the Beck settlement amounts will be publicly disclosed. Those settlements would also be subject to court approval. Finally, the Company believes that another defendant in the HST action, which is not a party to the Beck action, has entered into a confidential settlement of the HST action for an amount unknown to the Company. The Company cannot currently estimate the liability, if any, it may have upon the resolution of the HST and Beck cases, but continues to evaluate settlement potential in light of the costs of defense, the risk of an adverse outcome after trial, and the attendant distraction of management.

SELLING STOCKHOLDERS

The following table sets forth the name of each selling stockholder, the number of shares and percentage of our common stock, each class of preferred stock and our total voting power beneficially owned by each selling stockholder as of June 24, 2005, the number of shares of common stock being sold in this offering and the number of shares and percentage of our common stock, each class of preferred stock and our total voting power to be beneficially owned by each selling stockholder after the completion of this offering, in each case assuming the underwriters do not exercise their over-allotment option. The table also includes this information for each of the Goldman Sachs investors in the aggregate and the Berkshire/Greenbriar investors in the aggregate. Each share of our series A preferred stock is convertible, at the option of the holder, into a number of shares of our common stock equal to $1,000 divided by a conversion price initially set at $3.00 per share, subject to anti-dilution adjustments. Each share of our series B preferred stock is convertible, at the option of the holder, into a number of shares of our common stock equal to $195.618 divided by a conversion price initially set at $3.00 per share, subject to antidilution adjustments. The shares available to the underwriters in connection with their over-allotment option will be sold only by the Berkshire/Greenbriar investors on a pro rata basis, calculated with reference to each Berkshire/Greenbriar entity's holdings as a percentage of the Berkshire/Greenbriar investor group's holdings as a whole. For information on how the selling stockholders received the shares to be offered and information on material relationships between us and the selling stockholders, see "Certain Relationships and Related Transactions."

	Shares Beneficially Owned Prior to Offering(1)							
	Common Stock		Series A		Series B			
Name	**Number(2)**	**Percent of Class(2)**	**Number**	**Percent of Class**	**Number**	**Percent of Class**	**Number of Shares Offered(3)**	**Percent of Total Voting Power(1)(2)(4)**
The Goldman Sachs investors(4)(5)	22,248,238	30.3%	47,125.000	46.6%	47,125.000	100.0%	8,098,002	24.3%
GS Capital Partners 2000, L.P.	12,646,857	19.3%	26,838.740	26.6%	26,838.740	57.0%	2,661,379	13.8%
GS Capital Partners 2000 Offshore, L.P	4,595,386	7.8%	9,752.176	9.6%	9,752.176	20.7%	967,233	5.0%
GS Capital Partners 2000 GmbH & Co Beteiligungs KG	528,610	1.0%	1,121.799	1.1%	1,121.799	2.4%		