HEXCEL CORP /DE/
Form 10-K
February 22, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-8472

Hexcel Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-1109521**
(State of Incorporation)	(I.R.S. Employer Identification No.)

281 Tresser Boulevard
Stamford, Connecticut 06901
(Address of principal executive offices and zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No x

The aggregate market value of the registrant s common stock held by non-affiliates was $1,982,310,985 based on the reported last sale price of common stock on June 30, 2007, which is the last business day of the registrant s most recently completed second fiscal quarter.

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

Class	Outstanding as of February 18, 2008
COMMON STOCK	95,814,889

Documents Incorporated by Reference:

Proxy Statement for Annual Meeting of Stockholders (to the extent specified herein) Part III.

PART I

ITEM 1. Business.

General Development of Business

Hexcel Corporation, founded in 1946, was incorporated in California in 1948, and reincorporated in Delaware in 1983. Hexcel Corporation and its subsidiaries (herein referred to as Hexcel , we , us , or our), is a leading advanced composites company. We develop, manufacture, and marke lightweight, high-performance composites, including carbon fibers, reinforcements, prepregs, honeycomb, matrix systems, adhesives and composite structures, for use in the commercial aerospace, space and defense and industrial applications. Our products are used in a wide variety of end applications, such as commercial and military aircraft, space launch vehicles and satellites, wind turbine blades, automotive, bikes, skis and a wide variety of other recreational equipment.

We serve international markets through manufacturing facilities and sales offices located in the United States and Europe, and through sales representation offices located in Asia, Australia and South America. We are also an investor in two joint ventures, one located in China and one in Malaysia, which manufacture composite structures for commercial aerospace.

Narrative Description of Business and Segments

We are a manufacturer of products within a single industry: Advanced Composites. In 2007, Hexcel successfully concluded the sale of a significant portion of our previously reported Reinforcements segment. In order to take full advantage of the many growing applications for advanced composite materials, we decided to narrow our focus and consolidate our activities around our carbon fiber, reinforcements for composites, honeycomb, matrix and engineered products product lines. In 2007, we completed the combination of our Reinforcements activities related to advanced composites with our previously reported Composites and Structures segments as a single organization. We successfully concluded the reorganization during 2007, with the divesture of our European Architectural business and the U.S. electronics, ballistics and general industrial (EBGI) product lines. These businesses are therefore being reported as discontinued operations within this annual report on Form 10-K. Unless otherwise indicated, all information within this annual report on Form 10-K reflects the continuing operations of Hexcel.

Hexcel now reports two segments, Composite Materials and Engineered Products, from the three segments reported in 2006, Composites, Structures and Reinforcements. The Composite Materials segment is now comprised of the same product lines as previously included under prior Composites segment, with the exception of specially machined honeycomb, which are now included under the Engineered Products segment, and the addition of the product lines previously reported under the Reinforcements segment that were not included in the sale of EBGI. The Engineered Products segment is comprised of the product lines previously included under the prior Structures segment, with the addition of the specially machined honeycomb product line. All prior financial statement periods have been revised to reflect the new segment structure.

The following summaries describe the ongoing activities related to the Composite Materials and Engineered Products segments as of December 31, 2007.

Composite Materials

The Composite Materials segment manufactures and markets carbon fibers, fabrics and specialty reinforcements, prepregs, structural adhesives, honeycomb, composite panels, molding compounds, polyurethane systems, gel coats and laminates that are incorporated into many applications, including military and commercial aircraft, wind turbine blades and recreational products.

The following table identifies the principal products and examples of the primary end-uses from the Composite Materials segment:

SEGMENT	PRODUCTS	PRIMARY END-USES
COMPOSITE MATERIALS	Carbon Fibers	• Raw materials for fabrics and prepregs • Filament winding for various space, defense and industrial applications
	Industrial Fabrics and Specialty Reinforcements	• Raw materials for prepregs and honeycomb • Composites and components used in aerospace, defense, wind energy, automotive, marine, recreation and other industrial applications • Civil engineering and construction 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	• Composite structures and interiors

Carbon Fibers: HexTow™ carbon fibers are manufactured for sale to third-party customers as well as for our own use in manufacturing certain reinforcements and composite materials. Carbon fibers are woven into carbon fabrics, used as reinforcement in conjunction with a resin matrix to produce pre-impregnated composite materials (referred to as prepregs) and used in filament winding and advanced fiber placement to produce 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 and industrial equipment.

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 reinforcements are used in the production of prepregs and other matrix materials used in primary and secondary structural aerospace applications such as wing components, horizontal and vertical stabilizer components, fairings, radomes and engine nacelles as well as overhead storage bins and other interior components. Our reinforcements are also used in the manufacture of a variety of industrial and recreational products such as wind energy blades, automotive components, boats, surfboards, skis and other sporting goods equipment and certain civil engineering and construction applications.

Prepregs: HexPly® prepregs are manufactured for sale to third-party customers and for internal use by our Engineered Products segment 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®, a new form of quasi-isotropic carbon fiber prepreg that enables small to medium sized composite components to be mass produced. HexTOOL is a specialized form of HexMC for use in the cost-effective construction of high temperature composite tooling. HexFIT® 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.

Resins: Polymer matrix materials are sold in bulk and film form for use in direct process manufacturing of composite parts. Resins can be combined with fiber reinforcements in manufacturing processes such resin transfer molding (RTM), resin film infusion (RFI) or vacuum assisted resin transfer molding (VARTM) to produce high quality composite components for both aerospace and industrial applications.

Structural Adhesives: We manufacture and market a comprehensive range of Redux® 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: HexWeb® 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.

We produce 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.

We sell 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. Aerospace is the largest market for honeycomb products. We also sell 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, we produce honeycomb for our Engineered Products segment for use in manufacturing finished parts for airframe Original Equipment Manufacturers (OEMs).

The following table identifies the key customers and the major manufacturing facilities of the Composite Materials segment:

COMPOSITE MATERIALS		
KEY CUSTOMERS		**MAJOR MANUFACTURING FACILITIES**
Alenia	FACC	Casa Grande, Arizona
Alliant Techsystems	Gamesa	Decatur, Alabama
BAE Systems	GKN	Dagneux, France
The Boeing Company	Goodrich	Duxford, England
Bombardier	Lockheed Martin	Linz, Austria
CFAN	Northrop Grumman	Les Avenieres, France
Composites One	Safran	Parla, Spain
CTRM Aero Composites	Spirit Aerosystems	Salt Lake City, Utah
Cytec Engineered Materials	Trek	Seguin, Texas
EADS (Airbus and Eurocopter)	United Technologies	
Embraer-Empresa	Vestas	

Net sales for the Composite Materials segment to third-party customers were $941.9 million in 2007, $858.2 million in 2006, and $791.5 million in 2005, which represented approximately 80%, 82%, and 83% of our net sales, respectively. Net sales for composite materials are highly dependent upon the number of large commercial aircraft produced as further discussed under the captions Significant Customers, Markets and Management s Discussion and Analysis of Financial Condition and Results of Operations. In addition, about 3% of our total production of composite materials in 2007 was used internally by the Engineered Products segment.

Engineered Products

The Engineered Products segment manufactures and markets composite structures and precision machined honeycomb parts for use in the aerospace industry. Composite structures are manufactured from a variety of composite and other materials, including prepregs, honeycomb, structural adhesives and advanced molding materials, using such manufacturing processes as autoclave processing, multi-axis numerically controlled machining, heat forming, compression molding and other composite manufacturing techniques. Composite structures and machined honeycomb include such items as aerodynamic fairings, wing panels, rotor blades, and other specific aircraft components.

The following table identifies the principal products and examples of the primary end-uses from the Engineered Products segment:

SEGMENT	PRODUCTS	PRIMARY END-USES
ENGINEERED PRODUCTS	• Composite Structures	Aircraft structures and finished aircraft components, including wing to body fairings, wing panels, flight deck panels, door liners, helicopter blades, spars and tip caps
	• Machined Honeycomb	Aircraft structural sub-components and semi-finished components used in helicopter blades, engine nacelles, and aircraft surfaces (flaps, wings, elevators and fairings)

Net sales for the Engineered Products segment to third-party customers were $229.2 million in 2007, $191.3 million in 2006, and $166.1 million in 2005, which represented approximately 20%, 18%, and 17% of our net sales, respectively.

The Engineered Products business unit has equity investments in two Asian joint ventures. They consist of BHA Aero Composite Parts Co., Ltd. (BHA Aero) and Asian Composites Manufacturing Sdn. Bhd. (ACM). Under the terms of the joint venture agreements, Hexcel and Boeing have transferred the manufacture of certain semi-finished composite components to these joint ventures. Hexcel purchases the semi-finished composite components from the joint ventures, inspects and performs additional skilled assembly work before delivering them to Boeing. The joint ventures also manufacture composite components for other tier 1 aircraft component manufacturers. These Asian joint ventures had combined revenues of $63.0 million and $53.0 million in 2007 and 2006, respectively. For additional information on the Joint Venture investment see Note 6, *Investments in Affiliated Companies*.

The following table identifies the key customers and the major manufacturing facilities of the Engineered Procucts segment:

ENGINEERED PRODUCTS	
KEY CUSTOMERS	**MAJOR MANUFACTURING FACILITIES**
The Boeing Company	Kent, Washington
Sikorsky	Pottsville, Pennsylvania
Spirit	Burlington, Washington
Bombardier	Welkenraedt, Belgium
Hawker / Beechcraft	Tianjin, China (JV)
	Alor Setar, Malaysia (JV)

Divestitures and Related Matters

In July of 2006, we announced our intention to explore strategic alternatives for portions of our previously reported Reinforcements segment. In order to take full advantage of the many growing applications for advanced composite materials, we decided to narrow our focus and consolidate our activities around our carbon fiber, reinforcements for composites, honeycomb, matrix and engineered products product lines. In doing so, we decided to combine our Reinforcements activities related to advanced composites with our previously reported Composites and Structures segments into a single organization, and explore the sale of our European Architectural business, our EBGI product lines and our interest in the TechFab joint venture, previously reported within the Reinforcements segment.

In December 2006, we completed the sale of our interest in TechFab LLC (TechFab) to our joint venture partner for $22.0 million in cash. TechFab is headquartered in Anderson, SC and manufactures non-woven reinforcement materials used in the manufacture of construction and roofing materials, sail cloth and other specialty applications. As a result of the sale, we recognized a after-tax gain of $9.6 million in the fourth quarter of 2006. The TechFab joint venture was part of our previously reported Reinforcements segment.

In February 2007, we completed the sale of our European Architectural business. Cash proceeds from the sale were $25.0 million. As a result of the sale, we recognized an after-tax gain of $6.5 million.

In August 2007, we completed the sale of the EBGI portion of our reinforcements business. Cash proceeds from the sale, net of transaction costs, were $58.5 million, resulting in a net after-tax loss of $3.4 million. The sale includes up to $12.5 million of additional payments contingent upon future sales of the Ballistics product line. Any additional payments will be recorded as income when earned.

With the completion of the EBGI sale, our previously announced portfolio review reached a successful conclusion, resulting in total cash proceeds, before any earnout payments, of $106.0 million and a net after-tax gain of $12.7 million.

In December of 2005, Hexcel and Dainippon Ink and Chemicals, Inc. (DIC) decided to dissolve the DIC-Hexcel Limited (DHL) joint venture. This joint venture was located in Komatsu, Japan, and produced and sold prepregs, honeycomb and decorative laminates using technology licensed from us and DIC. The dissolution was completed in the fourth quarter of 2006 with Hexcel receiving a cash distribution of $0.1 million. The DHL joint venture was part of our previously reported Composites segment.

See Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 Discontinued Operations and Note 6 Investments in Affiliated Companies to the accompanying consolidated financial statements of this Annual Report on Form 10-K for further information related to the status of our strategic review, results from discontinued operations and information related to our joint ventures.

Financial Information About Segments and Geographic Areas

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

Significant Customers

Approximately 25%, 24%, and 23% of our 2007, 2006, and 2005 net sales, respectively, were to The Boeing Company (Boeing) and related subcontractors. Of the 25% of sales to Boeing and its subcontractors in 2007, 20.7% related to commercial aerospace market applications and 4.5% related to space and defense market applications. Approximately 22%, 26%, and 27% of our 2007, 2006, and 2005 net sales, respectively, were to European Aeronautic Defence and Space Company (EADS), including its business division Airbus Industrie (Airbus), and its subcontractors. Of the 22% of sales to EADS and its subcontractors in 2007, 18.8% related to commercial aerospace market applications 3.3% related to space and defense market applications.

(In millions)	2007	2006	2005
Commercial Aerospace:			
Boeing and subcontractors	**$ 242.6**	$ 189.5	$ 154.5
EADS and subcontractors	**219.9**	232.3	215.9
Total	**$ 462.5**	$ 421.8	$ 370.4
Space and Defense:			
Boeing and subcontractors	**$ 52.8**	$ 60.7	$ 63.3
EADS and subcontractors	**38.9**	38.2	40.6
Total	**$ 91.7**	$ 98.9	$ 103.9

Markets

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

2007