

**Chromalloy United Kingdom Limited**

**Annual report and financial  
statements**

**Registered number 00971349  
31 December 2020**



## **Contents**

Company information	1
Strategic report	2
Directors' report	3
Statement of directors' responsibilities in respect of the strategic report, the annual report and the financial statements	6
Independent auditor's report to the members of Chromalloy United Kingdom Limited	7
Profit and loss account and other comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Notes	12

## **Company information**

### **Directors**

P Howard  
D Gartshore

### **Secretaries**

D Kaplan  
A Sanders  
S Lowson

### **Auditor**

KPMG LLP  
St Nicholas House  
Park Row  
Nottingham  
NG1 6FQ

### **Banker**

National Westminster Bank PLC  
Nottingham Smiths Branch  
16 South Parade  
Nottingham  
NG1 2JX

### **Registered office**

10 Clover Nook Road  
Coates Park Industrial Estate  
Somercotes  
Alfreton  
Derbyshire  
DE55 4RF

## **Strategic report**

### **Business review**

Sales decreased £4,484,000 (31.9%) year on year, across all three core markets; Aero, Energy and Military, in what can only be described as a very difficult market. 2020 was a year of reacting to the tough trading conditions brought about by the International Covid-19 pandemic. 2021 is expected to be a year of gradual growth with further stabilisation and cost reduction measures in order to align our cost base with the reduced turnover.

### **Risks and future developments**

The Covid-19 pandemic has adversely affected our Industry and Business with a 40% forecasted reduction within the Aviation Industry. Although this is part of our core business we continue to see solid sales within the Energy and Military side of the business and have implemented a number of measures to align our cost base with the reduced turnover and have made 43 redundancies along with restructuring the current business and processes. There is a medium-term plan in place to consolidate our facilities and realise further cost savings.

### **Disabled employees**

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

### **Employees**

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through regular meetings held during the year between management and staff representatives. The health and safety of all employees is constantly reviewed by the company to ensure the maintenance of high standards at work. All employees have undergone fire awareness training and there are documented training plans for all areas of activity, including either Part 145 training, ILM training for supervisory staff, NAS410-EN4179 NDT qualifications and a variety of certifications under the use of work equipment regulations. All employees attend ethics training under the Chromalloy Gas Turbine LLC Code of Ethical Standards programme.

### **Environment**

The directors are aware of the impact of poor environmental practices and are constantly improving the company's policies and working practices to ensure compliance with relevant legislation.

### **Creditor payment policy**

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

On behalf of the Board



**Derek Gartshore**

*Director*

Dated – 23 September 2021

## Directors report

The directors present their report and the financial statements for the year ended 31 December 2020.

### Results and dividends to the P&L

Turnover has decreased by 31.9% from £14,073,000 to £9,589,000. The loss for the year, after taxation, amounted to £15,546,000 (2019: loss of £1,171,000), which included dividend income of £5,365,000 (2019: £3,500,000) from joint venture investments and an impairment charge of £14,676,000 against the carrying value of investments. The directors do not recommend the payment of a final dividend (2020: £nil). No interim dividend was paid during the year (2019: £nil).

### Principal activities

The principal activity of the company during the year was the provision of a specialist component repair and coating service to organisations concerned with the operation and overhaul of gas turbine engines.

### Directors

The directors who served the company during the year were as follows:

P Howard  
P A Jerram (Resigned 22 June 2020)  
C Summers (Appointed 6 July 2020, resigned 3 February 2021)  
D Gartshore (Appointed 12 February 2021)

The company has taken out indemnity insurance for the benefit of the directors.

### Section 172(1) Statement

This Statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- the likely consequences of decisions made
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment and
- Maintaining a reputation for high standards of business conduct.

### Decision Making

Decisions are made around the group's values, policies and processes. The Companies core values are:

- Integrity
- Quality
- Innovation
- Customer Focus
- Pride & passion

Each year a strategic plan, a financial forecast for the current year and financial projections for the future year, are produced. The Directors of the Company contribute towards this process to identify and manage the potential risks within the business. In so doing the Directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company.

During the year, the Directors of the Company approved bid proposals for new and existing customers and in doing so, have regard to a number of matters including the business case and financial returns, technical and programme management matters, risk management, workforce matters and the long term reputation of the Company.

## **Directors report** *(continued)*

### **Employees**

Employee engagement is a primary focus points for the Directors of the Company. The business remains committed to strengthening its values and its peoples' experience. Fundamental to this approach is:-

- Mutual trust and respect
- Personal accountability
- Development and prioritisation
- Open 2 way communication
- Inclusion and diversity

The business recognises that by empowering people they contribute to improving business performance and creates the right environment to allow a people to develop to their full potential.

This is also particularly important with respect to safety related matters, which is an inherent part of the Company's business. The Company and its directors encourage free reporting of near misses, mistakes and errors which is fundamental in establishing and maintaining a just culture.

Employees are provided with the means to give their views and feedback via regular employee engagement surveys. This is followed up by "you said, we did" communication to feedback actions taken from these surveys.

Throughout the coronavirus pandemic, we have taken practical steps, and implemented robust measures to ensure the welfare of our employees. The company rigorously adheres to social distancing regulations, has implemented temperature checks on entering the facility and daily deep clean of the whole facility to ensure safe working conditions for our employees.

We have robust business continuity processes in place that will help enable us to continue to service the needs of customers during these uncertain times.

### **Fostering Business Relationships with Suppliers, Customers and Others**

The Directors recognise that fostering business relationships with key stakeholders, such as customers, suppliers and regulatory authorities, is essential to the Company's success. The company provides manufactured parts into the aerospace, energy and military sectors. Strong and collaborative relationships with our customers help us to meet customer demand and reduce costs from the manufacturing processes. The Company has had great success from initiating customer focussed lean events on site.

The Company works with its suppliers to ensure that all raw material requirements are provided in the most cost effective and timely manner as to meet operational demand. Collaborative relationships with key suppliers is essential to ensure quality of product and ultimately Customer satisfaction.

### **The Community and the Environment**

The Directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to our Company and our employees, allowing us to make a positive difference and have an impact where it counts. This is actioned via our Chromalloy in the Community initiative.

We recognise that our operations have an impact on the environment – from the energy and resources we use and the waste that we generate. As an organisation, we are committed to reducing the environmental impact of our operations and are accredited with ISO 14001.

### **Maintaining a reputation for high standards of business conduct**

All employees of the Company are expected to act in accordance with the requirements of Companies HR policies, including the Code of Conduct, at all times. This reduces the risk of compliance failure and supports us in attracting and retaining high-calibre employees.

### **Donations**

During the year, the company made political and charitable donations totalling £nil (2019: £nil).

### **Statement as to disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

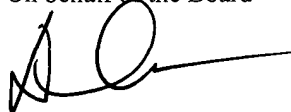
### **Going concern**

The Directors received an undertaking from the group in the form of a support letter that sufficient finance will be available to meet obligations as they fall due, in line with the Company's business plan, for a period of not less than twelve months from the date of signature of these financial statements. Accordingly, for the reasons set out in the accounting notes on page 12, they continue to adopt the going concern basis in preparing the annual report and accounts.

### **Auditor**

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board



**D Gartshore**

*Director*

10 Clover Nook Road  
Coates Park Industrial Estate  
Somercotes  
Alfreton  
Derbyshire  
DE55 4RF

Dated 23 September 2021

## **Statement of directors' responsibilities in respect of the Strategic report, the directors' report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.





## **Independent auditor's report to the members of Chromalloy United Kingdom Limited**

### **Opinion**

We have audited the financial statements of Chromalloy UK Limited ("the company") for the year ended 31 December 2020 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

### **Fraud and breaches of laws and regulations – ability to detect**

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.



## **Independent auditor's report to the members of Chromalloy United Kingdom Limited (continued)**

- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to improve reported results, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries.

We also identified a fraud risk related to recognition of expenses, in particular the risk that expenses are recorded in the wrong period in response to possible pressures to improve reported results.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unrelated accounts and those posted to seldom used accounts.
- Identifying sales invoices in the pre and post year end cut off period to test based on risk and specific item criteria, including values and dates, incorporating an element of unpredictability and comparing the revenue recognition to supporting documentation to ensure revenue has been appropriately recognised.
- Identifying post year end credit notes to test based on specific item criteria, including values and dates and comparing the revenue recognition to supporting documentation to ensure revenue has been appropriately recognised.
- Identifying post year end purchase invoices and payments to test based on risk and specific item criteria, including values and dates, incorporating an element of unpredictability and comparing the cost recognition to supporting documentation to ensure costs have been appropriately captured.

### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly



## **Independent auditor's report to the members of Chromalloy United Kingdom Limited** *(continued)*

planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



## **Independent auditor's report to the members of Chromalloy United Kingdom Limited** *(continued)*

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink, reading 'L M De Lucchi'.

**Louise De Lucchi (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
St Nicholas House  
Park Row, Nottingham, NG1 6GQ

Date: 28 September 2021

**Profit and loss account and other comprehensive income**  
*for the year ended 31 December 2020*

	<i>Note</i>	<b>2020</b> <b>£000</b>	<b>2019</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>9,589</b>	<b>14,073</b>
Cost of sales		(12,623)	(14,924)
<b>Gross loss</b>		<b>(3,034)</b>	<b>(851)</b>
Distribution costs		(12)	(274)
Administrative expenses		(2,357)	(3,313)
Administrative expenses – exceptional items	<b>3</b>	(733)	(85)
<b>Operating loss</b>		<b>(6,136)</b>	<b>(4,523)</b>
Income from shares in group undertakings		5,365	3,500
Other Income	<b>1</b>	234	-
Other interest receivable and similar income	<b>6</b>	725	1,235
Interest payable and similar expenses	<b>7</b>	(1,058)	(1,383)
Amounts written off investments	<b>10</b>	(14,676)	-
<b>Loss before taxation</b>		<b>(15,546)</b>	<b>(1,171)</b>
Tax on loss	<b>8</b>	-	-
<b>Loss for the financial year</b>		<b>(15,546)</b>	<b>(1,171)</b>
<b>Other comprehensive income/expense</b>			
Remeasurement of the net defined benefit liability	<b>16</b>	111	(622)
Income tax on other comprehensive income/(expense)	<b>8</b>	-	-
<b>Other comprehensive income/expense for the year, net of income tax</b>		<b>111</b>	<b>(622)</b>
<b>Total comprehensive expense for the year</b>		<b>(15,435)</b>	<b>(1,793)</b>

In both the current and prior year, the company made no material acquisitions and had no discontinued operations.

The attached notes form an integral part of the financial statements.

**Balance sheet**  
at 31 December 2020

	Note	2020 £000	2019 £000
<b>Fixed assets</b>			
Tangible assets	9	6,737	7,058
Investments	10	21,376	34,888
		<u>28,113</u>	<u>41,946</u>
<b>Current assets</b>			
Stocks	11	877	960
Debtors	12	5,713	5,966
Cash at bank and in hand		1,588	2,435
		<u>8,178</u>	<u>9,361</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(39,243)</u>	<u>(38,419)</u>
<b>Net current liabilities</b>		<u>(31,065)</u>	<u>(29,058)</u>
<b>Total assets less current liabilities</b>		<u>(2,952)</u>	<u>12,888</u>
<b>Provisions for liabilities</b>			
Pensions and similar obligations	16	(1,284)	(1,689)
<b>Net (liabilities)/assets</b>		<u><u>(4,236)</u></u>	<u><u>11,199</u></u>
<b>Capital and reserves</b>			
Called up share capital	17	50	50
Capital reserve	17	1,784	1,784
Profit and loss account		(6,070)	9,365
<b>Shareholder's (deficit)/funds</b>		<u><u>(4,236)</u></u>	<u><u>11,199</u></u>

The attached notes form an integral part of the financial statements.

These financial statements were approved by the board of directors on 23 September 2021 and were signed on its behalf by:



**D Gartshore**  
Director

Company registered number: 00971349

## Statement of changes in equity

	Called up share capital £000	Capital reserve £000	Profit and loss account £000	Total Equity £000
Balance at 1 January 2019	50	1,784	11,158	12,992
<b>Total comprehensive expense for the year</b>				
Loss for the year	-	-	(1,171)	(1,171)
<i>Other comprehensive expense</i>				
Remeasurement of the net defined benefit liability	-	-	(622)	(622)
Income tax on other comprehensive expense	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive expense for the year	-	-	(1,793)	(1,793)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2019</b>	<b>50</b>	<b>1,784</b>	<b>9,365</b>	<b>11,199</b>
	<hr/>	<hr/>	<hr/>	<hr/>

	Called up share capital £000	Capital reserve £000	Profit and loss Account £000	Total Equity £000
Balance at 1 January 2020	50	1,784	9,365	11,199
<b>Total comprehensive expense for the year</b>				
Loss for the year	-	-	(15,546)	(15,546)
<i>Other comprehensive income</i>				
Remeasurement of the net defined benefit liability	-	-	111	111
Income tax on other comprehensive income	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive expense for the year	-	-	(15,435)	(15,435)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2020</b>	<b>50</b>	<b>1,784</b>	<b>(6,070)</b>	<b>(4,236)</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The attached notes form an integral part of the financial statements.

## Notes

(forming part of the financial statements)

### 1 Accounting policies

Chromalloy United Kingdom Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The registered number is 00971349 and the registered address is 10 Clover Nook Road, Coates Park Industrial Estate, Somercotes, Alfreton, Derbyshire, DE55 4RF.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The smallest and largest group, in which the results of the Company are consolidated, is that headed by Sequa Corporation, a company incorporated in the United States of America. The financial statements of Sequa Corporation have been lodged along with these accounts at Companies House, Crown Way, Cardiff, CF4 3UZ. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Sequa Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 22.

#### 1.1. Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2. Going concern

Notwithstanding net current liabilities of £31.1 million and net liabilities of £4.2m as at 31 December 2020 and a loss for the year then ended of £15.6 million, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate company, Sequa Corporation, to meet its liabilities as they fall due for that period.



**Notes (continued)****1 Accounting policies (continued)****1.2. Going concern (continued)**

Those forecasts are dependent on Sequa Corporation not seeking repayment of the amounts currently due to the group, which at 31 December 2020 amounted to £37 million, and providing additional financial support during that period. Sequa Corporation has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts.

Sequa Corporation experienced significant headwinds in 2020 as a result of the Covid-19 pandemic, resulting in a net loss for the 2020 financial year (2019: net loss for the financial year) however during 2020 Sequa Corporation restructured its debt financing such that facilities do not begin to mature until October 2022. Following this restructure, the directors of the company believe that Sequa Corporation has both the ability and intent to continue its support of the company.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**1.3. Foreign currency**

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

**1.4. Classification of financial instruments issued by the Company**

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

**1.5. Basic financial instruments****Trade and other debtors / creditors**

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond

**Notes (continued)****1 Accounting policies (continued)****1.5. Basic financial instruments (continued)**

normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

*Investments in subsidiaries and jointly controlled entities*

These are separate financial statements of the company. Investments in subsidiaries and jointly controlled entities are carried at cost less impairment.

**1.6. Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Freehold property	20 years
Assets under the course of construction	Not depreciated until commissioned
Plant and machinery	5 - 15 years
Fixtures and fittings	2 - 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

**1.7. Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

**1.8. Impairment excluding stocks, investment property and deferred tax assets**

*Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**Notes (continued)****1 Accounting policies (continued)****1.8. Impairment excluding stocks, investment property and deferred tax assets (continued)***Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than stocks, investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**1.9. Employee benefits***Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

**Notes (continued)****1 Accounting policies (continued)****1.9. Employee benefits (continued)****Group Plans**

The Company's employees are members of a group wide defined benefit pension plan. The Company is the entity legally responsible for the group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan and the net defined benefit liability are recognised fully by the Company, which is legally responsible for the plan.

**1.10. Turnover**

Turnover, which is stated net of value added tax, is derived from the provision of goods and services to customers. Revenue is recognised based on confirmed deliveries to customers, when the risks and rewards associated with the underlying products have been substantially transferred.

**1.11. Expenses****Operating lease**

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

**Interest receivable and interest payable**

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

**1.12. Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries and joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property, except when the investment property has a limited useful life and the objective of the company's business model is to consume substantially all of the value through use. In the latter case the tax rate that is expected to apply to the reversal of the related difference is used. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

**Notes (continued)****1 Accounting policies (continued)****1.13. Government Grants**

Government grants are to be recognised in the profit and loss account separately and not to be offset against the original expense or purpose for the grant.

**2 Turnover**

The whole of the company's turnover was derived from its principal activities, being the sale of goods in the following geographical locations;

	2020 £000	2019 £000
United Kingdom	4,588	7,675
Rest of Europe	4,539	5,566
North America	368	676
Australasia and Far East	26	26
Africa and Middle East	68	130
	<u>9,589</u>	<u>14,073</u>

**3 Expenses and auditor's remuneration**

*Included in the loss are the following:*

	2020 £000	2019 £000
Restructuring costs expensed as incurred – included in administrative charges	733	85
Foreign exchange impact on translation of inter-company loans	(462)	(907)
	<u></u>	<u></u>

Restructuring charges for both the current and prior year were incurred, principally in connection with incentives that include redundancy programmes and the planned closure and relocation of facilities in order to improve processes and better customer services.

*Auditor's remuneration:*

	2020 £000	2019 £000
Audit of these financial statements	65	45
Amounts receivable by the company's auditor and its associates in respect of:		
Other assurance services	-	-
	<u></u>	<u></u>

**Notes (continued)****4 Staff numbers and costs**

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2020	2019
Production staff	149	187
Administrative staff	15	21
	<u>164</u>	<u>208</u>

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£000	£000
Wages and salaries	5,026	5,796
Social security costs	452	551
Contributions to defined contribution plans (note 16)	185	225
	<u>5,663</u>	<u>6,572</u>

**5 Director remuneration**

	2020	2019
	£000	£000
Directors' remuneration	150	102
Company contributions to money purchase pension plans	-	8
	<u>-</u>	<u>8</u>

A share of other director emoluments for directors have been borne by other group companies. The other directors are also directors or officers of other companies within the Sequa Corporation Group. The other director services to the company do not occupy a significant amount of their time and an amount in respect of those services provided by the Directors cannot realistically be attributed. As such, the directors do not consider that they have received any remuneration for their incidental services to the company for the year.

	Number of directors	
	2020	2019
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	-	1
Defined benefit schemes	-	-
	<u>-</u>	<u>-</u>

**Notes (continued)****6 Other interest receivable and similar income**

	2020 £000	2019 £000
Interest income on defined benefit pension scheme assets (note 16)	263	328
Foreign exchange impact on translation of inter-company loans	462	907
	<hr/>	<hr/>
Total interest receivable and similar income	725	1,235
	<hr/>	<hr/>

**7 Interest payable and similar expenses**

	2020 £000	2019 £000
Other Interest	-	1
Interest on loans from group undertakings (note 14)	767	1,018
Interest charge on net defined benefit liabilities (note 16)	291	364
	<hr/>	<hr/>
Total other interest payable and similar expenses	1,058	1,383
	<hr/>	<hr/>

**8 Taxation****Total tax expense recognised in the profit and loss account and other comprehensive income**

	2020		2019	
	£000	£000	£000	£000
<i>Current tax</i>				
Current tax on income for the year		-		-
		<hr/>		<hr/>
Total current tax		-		-
<i>Tax on Interest:</i>				
<i>Deferred tax (note 15)</i>				
Deferred tax movement related to pension scheme liabilities	-	-	-	-
	<hr/>		<hr/>	
Total deferred tax		-		-
		<hr/>		<hr/>
Total tax		-		-
		<hr/>		<hr/>

## Notes (continued)

## 8 Taxation (continued)

	£000	2020 £000	£000	£000	2019 £000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit and loss account	-	-	-	-	-	-
Recognised in other comprehensive income	-	-	-	-	-	-
Total tax	-	-	-	-	-	-

## Reconciliation of effective tax rate

	2020 £000	2019 £000
Loss for the year	(15,546)	(1,121)
Total tax credit	-	-
Loss excluding taxation	(15,546)	(1,121)
Tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	(2,954)	(223)
Non-deductible expenses	-	60
Dividend income	(1,019)	(665)
Corporate interest restriction	-	340
Current year losses for which no deferred tax asset was recognised	3,973	488
Total tax credit included in profit or loss	-	-

## Factors that may affect future tax charges

The UK corporation tax rate reduced from 20% to 19% (effective from 1 April 2018). Further planned reductions to 18% (effective 1 April 2020), and an additional reduction to 17% (effective 1 April 2020) which had been previously announced were cancelled in the Budget announced on 11 March 2020. In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023.

Total losses for which a deferred tax asset has not been recognised are £59,437,000, (2019: £37,704,000).



## Notes (continued)

## 9 Tangible fixed assets

	Freehold property £000	Assets under the course of construction £000	Plant and machinery/ Fixtures and fittings £000	Total £000
<b>Cost</b>				
Balance at 1 January 2020	4,859	503	36,135	41,497
Additions	-	703	-	703
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	4,859	1,206	36,135	42,200
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation and impairment</b>				
Balance at 1 January 2020	4,209	-	30,230	34,439
Depreciation charge for the year	-	-	1,027	1,027
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	4,209	-	31,257	35,466
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
<b>At 31 December 2020</b>	<b>650</b>	<b>1,206</b>	<b>4,878</b>	<b>6,734</b>
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	650	503	5,905	7,058
	<hr/>	<hr/>	<hr/>	<hr/>

*Land and buildings*

The net book value of land and buildings comprises:

	2020 £000	2019 £000
Freehold	650	650
	<hr/>	<hr/>
	650	650
	<hr/>	<hr/>

## Notes (continued)

## 10 Fixed asset investments

	Shares in group undertakings £000	Participating interests £000	Total £000
<b>Cost</b>			
At beginning and end of year	20,143	14,745	34,888
Additions within the year	1,164	-	1,164
	<hr/>	<hr/>	<hr/>
<b>Provision for diminution in value:</b>			
At 1 January 2020	-	-	-
Impairment losses	(14,676)	-	(14,676)
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2020	6,631	14,745	21,376
	<hr/>	<hr/>	<hr/>
At 31 December 2019	20,143	14,745	34,888
	<hr/>	<hr/>	<hr/>

The Company has the following investments in subsidiaries and jointly controlled entities:

	Aggregate of capital and reserves £000	Profit or loss for the year £000	Country of incorporation	Class of shares held	Registered office	Ownership 2020 %
Turbine Services Limited	28,503	839	England	Ordinary	(i)	100%
TRT Limited	7,941	861	England	Ordinary	(ii)	50%
Turbine Surface Technologies Ltd	38,149	288	England	Ordinary	(ii)	50%
Turbine Services (Thailand) Ltd (a)	3,290	(185)	Thailand	Ordinary	(iii)	100%

(a) 100% investment held by Turbine Services Limited

Registered addresses;

(i) 10 Clover Nook Road, Cotes Park Industrial Estate, Alfreton, Derbyshire, DE55 4RF

(ii) Moor Lane, Derby, Derbyshire, DE24 8BJ

(iii) 25 Moo 5, Bungkhamproi Lamukka, Pathumthani, 12150, Thailand

The directors have assessed the requirement for an impairment through comparing the carrying value of the fixed asset investments to their recoverable amount based on a value in use calculation. An impairment results where the recoverable amount is less than the carrying value.

Cash flows for a period of 5 years are taken from the most recent financial forecasts from management, taking into account the ongoing impact of Covid-19, with cash flows beyond the period of the financial forecast being based on estimates of future average growth rates.

Discount rates have been calculated based using rates based on the refinancing of the USA parent, Sequa Corporation. The discount rate used for the impairment review is 16.5% (2019: 12.5%). This has increased year on year following a refinancing at Sequa Corporation and an increase in the alpha rate applied to the UK sub-group. The change in discount rate has had a material impact on the overall value in use calculation.

An impairment of £14,676,000 (2019: £nil) was processed reflecting the recoverable value of the investment in Turbine Services Limited. See note 23 for post balance sheet events.

**Notes (continued)****11 Stocks**

	2020 £000	2019 £000
Raw materials and consumables	105	56
Work in progress	764	879
Finished goods	8	25
	<u>877</u>	<u>960</u>

Raw materials and consumables recognised as cost of sales in the year amounted to £2,610,000 (2019: £3,885,000). The write-down of stocks to net realisable value amounted to £nil (2019: £nil). The write-down is included in cost of sales.

**12 Debtors**

	2020 £000	2019 £000
Trade debtors	969	1,190
Amounts owed by group undertakings	4,111	3,824
Amounts owed by group undertakings in which the company has a participating interest	250	605
Corporation tax	84	84
Prepayments and accrued income	299	263
	<u>5,713</u>	<u>5,966</u>
Due within one year	<u>5,713</u>	<u>5,966</u>
Due after more than one year	-	-
	<u>5,713</u>	<u>5,966</u>

Amounts owed by group undertakings are repayable on demand.

**13 Creditors: amounts falling due within one year**

	2020 £000	2019 £000
Trade creditors	1,078	1,225
Amounts owed to group undertakings (note 14)	36,977	36,733
Taxation and social security	886	158
Accruals and deferred income	302	303
	<u>39,243</u>	<u>38,419</u>

**Notes (continued)****14 Interest-bearing loans and borrowings**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2020 £000	2019 £000
<b>Creditors falling due within less than one year</b>		
Amount owed to group undertakings	36,977	35,993

The loan balances which are due to group undertakings are repayable on demand and attract interest ranging from 2% to 4% pa. Total interest charged during 2020 was £767,000 (2019: £1,018,000).

**15 Deferred tax assets and liabilities**

The Company has unrecognised gross tax losses of £59,437,000 (2019: £37,704,000) also, a deferred unrecognised tax asset of £287,000 in current year in relation to the defined benefit pension scheme. (2019: £294,000 unrecognised).

**16 Employee benefits**

The Company sponsors the Chromalloy UK Limited Retirement Benefits Scheme, a funded defined benefit pension scheme in the UK. The Scheme is administered within a trust which is legally separate from the Company. The Trustee is appointed by both the Company and the Scheme's membership and act in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The Scheme closed to future benefit accrual on 31 January 2006. On closure, the link to pensionable salary for active members ceased and all active members at that time became deferred members of the Scheme. The Scheme provides pensions and lump sums to members on retirement and to their dependants on death.

Since the closure of the Scheme to benefit accrual on 31 January 2006 no employee contributions have been paid. The Company meets the ongoing funding costs of the Scheme, as determined by regular actuarial valuations, which are usually carried out every three years. The Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

A formal actuarial valuation was carried out as at 30 April 2018. The most recent valuation of the Scheme is currently ongoing with an effective date of 30 April 2020. The liabilities for these accounting disclosures have been calculated by rolling forward the initial results of the 30 April 2020 actuarial valuation to the Measurement Date, allowing for the benefit information provided. The resulting liabilities have then been adjusted to reflect the different assumptions used for accounting purposes. The figures in the following disclosure were measured using the Projected Unit Method. No allowances have been made for the impact of COVID-19 within the accounting disclosures this year, in part due to the uncertainty over the long-term impact.

The schedule of contributions has been prepared by the Trustee of the scheme after obtaining the advice of the scheme Actuary and has been agreed by C.U.K. Limited ("the Principal Employer"). It sets out the contributions that the Principal Employer must pay to the scheme and the dates by which these contributions must be paid. The Schedule covers the contributions payable over the period 1 August 2020 to 30 September 2025.

All expenses incurred prior to 31 October 2018 were met directly by the Company, with no allowance being made for these within prior years' accounting pensions disclosures.

With effect from 31 October 2018 the Company has paid an expense allowance into the Scheme, and the Scheme has been responsible for meeting invoices as they fall due. The Company now needs to make an appropriate allowance for administration expenses within the pension disclosures.

## 16 Employee benefits (continued)

In order to ensure that the FRS 102 figures are consistent with the US GAAP disclosures, an allowance of £126,000 pa for administration expenses has been included within the P&L. This is in line with the expense allowance contribution set out in the most recent Schedule of Contributions, signed in August 2020.

The information disclosed below is in respect of the whole of the Scheme for which the Company is the sponsoring employer.

	2020 £000	2019 £000
Defined benefit plan assets	14,924	12,996
Total defined benefit obligation	(16,208)	(14,685)
Net pension liability (see following table)	(1,284)	(1,689)

**Total employee benefits***Movements in net defined benefit liability*

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Balance at 1 January	(14,685)	(13,097)	12,996	11,536	(1,689)	(1,561)
<b>Included in profit or loss:</b>						
Interest (cost)/income	(291)	(364)	263	328	(28)	(36)
	(291)	(364)	263	328	(28)	(36)
<b>Included in other comprehensive income:</b>						
Actuarial (loss)/gain arising from change in financial assumptions	(1,276)	(1,824)	-	-	(1,276)	(1,824)
Return on plan assets excluding interest income	-	-	1,387	1,202	1,387	1,202
	(1,276)	(1,824)	1,387	1,202	111	(622)
<b>Other movements:</b>						
Administration Expenses	-	-	(126)	(126)	(126)	(126)
Contributions paid by the employer	-	-	448	656	448	656
Benefits paid	446	600	(446)	(600)	-	-
Recognition of insurance annuity	(402)	-	402	-	-	-
	44	600	278	(70)	322	530
<b>Balance at 31 December</b>	<b>(15,208)</b>	<b>(14,685)</b>	<b>14,924</b>	<b>12,996</b>	<b>(1,284)</b>	<b>(1,689)</b>

**Notes (continued)****16 Employee benefits (continued)****Plan assets**

	2020	2019
	£000	£000
Cash and cash equivalents	906	1,088
Corporate Bonds	4,408	3,599
Multi-sector credit	4,190	4,138
Debt instruments - Government bonds	5,018	4,171
Annuity policies	402	-
<b>Total</b>	<b>14,924</b>	<b>12,996</b>

**Actuarial assumptions**

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

	2020	2019
Discount rate at 31 December	1.40%	2.00%
Revaluation of deferred pensions	2.26%	2.32%
Future increases to pension earned prior to 1 February 1994	0.00%	0.00%
Future increases to pension earned between 1 February 1994 and 5 April 1997	2.51%	2.54%
Future increases to pension earned after 6 April 1997	2.71%	2.74%
Proportion of employees opting for early retirement	0.00%	0.00%
Proportion of employees commuting pension for cash	25.00%	25.00%
Retail price inflation	3.26%	3.32%
Customer price inflation	2.26%	2.32%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.1 years (male), 24.4 years (female).
- Future retiree, currently aged 45, upon reaching 65: 22.5 years (male), 24.9 years (female).

**17 Capital and reserves****Share capital**

	2020	2019
	£	£
<i>Allotted, called up and fully paid</i>		
250 ordinary shares of £1 each	250	250
50,000 deferred shares of £1 each	50,000	50,000
<b>Shares classified in shareholders' funds</b>	<b>50,250</b>	<b>50,250</b>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The deferred shares carry no dividend, distribution or voting rights. These shares were issued for £nil proceeds.

**Notes (continued)****17 Capital and reserves (continued)***Capital reserve*

The capital reserve is a non-distributable reserve.

**18 Operating leases**

Non-cancellable operating lease rentals are payable as follows:

	2020 £000	2019 £000
Less than one year	351	345
Between one and five years	1,393	1,380
More than five years	546	862
	<u>2,290</u>	<u>2,587</u>

During the year £353,000 was recognised as an expense in the profit and loss account in respect of operating leases (2019: £345,000).

**19 Contingencies**

The company has given a bank guarantee of £100,000 (2019: £100,000) to its bank in respect of deferred import duty. This was extinguished during 2021.

A guarantee of £500,000 (2019: £500,000) has been provided to Turbine Services Limited, a wholly owned subsidiary undertaking.

On 25 January 2017, the company provided security for certain obligations and liabilities owed to a customer, secured by fixed and floating charges over certain assets of the company.

**20 Related parties**

As the Company was a wholly owned subsidiary within the Sequa Corporation group at 31 December 2018, the Company has taken advantage of the exemption contained in FRS102.33.1A and has therefore not disclosed transactions or balances with wholly owned entities which form part of the Group headed by Sequa Corporation.

**21 Ultimate parent company and parent company of larger group**

The immediate parent company is Chromalloy UK Holdings Ltd, a company incorporated in England and Wales with registered address 10 Clover Nook Road, Cotes Park Industrial Estate, Somercotes, Alfreton, Derbyshire, DE55 4RF.

The ultimate parent undertaking is The Carlyle Group with its Head Office at 1001 Pennsylvania Avenue NW, Washington DC 20004-2505 USA, a US corporation quoted on the NASDAQ Global Select Market in New York.

The smallest and largest group, in which the results of the Company are consolidated, is that headed by Sequa Corporation, a company incorporated in the United States of America. The financial statements of Sequa Corporation have been lodged along with these accounts at Companies House, Crown Way, Cardiff, CF4 3UZ.

**Notes (continued)****22 Accounting estimates and judgements**

The preparation of financial statements in conformity with FRS102 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The directors consider the following to be critical estimates and judgements applicable to the financial statements:

**Recoverability of trade debtors** – Trade debtors are assessed for impairment and are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The directors use historic experience and assessment of future profitability to assess whether an impairment is required.

**Recoverability of stock** – The value of stocks have been assessed for impairment and where required, a provision is made to reduce the cost to no more than net realisable value. This requires judgement and assumptions are made on anticipated utilisation and saleability, taking into account the nature and condition of stocks as well as historic experience and assessment of future profitability.

**Employee retirement benefits** – the company operates an approved defined benefit pension scheme. The pension costs relating to the retirement plans are accounted for under FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' with the cost of providing retirement benefits determined using the Projected Unit Credit method, and actuarial valuations being carried out at each balance sheet date. Inherent in these valuations are key assumptions, including discount rates, expected returns on plan assets, compensation increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate in accordance with the advice of independent qualified actuaries. No deferred tax is currently recognised in relation to the pension deficit.

**Investments** - Investments are assessed for impairment when an impairment indicator exists. The existence of impairment indicators is considered at each reporting date. Management have not identified any impairment indicators that would impact the carrying value of investments in these financial statements.

**23 Post Balance Sheet events**

In May 2021, the Directors of Turbine Services Limited (a 100% owned Subsidiary of Chromalloy UK Ltd), took the decision to reduce the value of Share Capital held in Turbine Services limited from £10.4 million to £5.2 million in accordance with the compliance solvency statement in section 644(5) of the Companies Act 2006.

On the 6th of July 2021, the Board of Turbine Services Limited (a 100% owned Subsidiary of Chromalloy UK Ltd), agreed to pay an interim dividend of \$28,584,985 to Chromalloy UK Ltd. These funds have been used to significantly improve the Intercompany debt position held by Chromalloy UK Ltd..



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**Sequa Corporation and Subsidiaries**  
**Consolidated Financial Statements**

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**December 31, 2020 and 2019**  
**(With Independent Auditors' Report Thereon)**

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## Table of Contents

	Page
Independent Auditors' Report	3
Financial Statements and Supplementary Data	
Consolidated Balance Sheets - Assets	4
Consolidated Balance Sheets - Liabilities, Preferred Stock and Shareholder's Deficit	5
Consolidated Statements of Operations	6
Consolidated Statements of Comprehensive Loss	7
Consolidated Statements of Cash Flows	8
Consolidated Statements of Shareholder's Deficit	10
Notes to Consolidated Financial Statements	
Note 1. Business	11
Note 2. Summary of Significant Accounting Policies	12
Note 3. Revenue Recognition	20
Note 4. Trade Receivables, Net	24
Note 5. Inventories	24
Note 6. Investments and Other Receivables	24
Note 7. Discontinued Operations	26
Note 8. Property, Plant and Equipment, Net	26
Note 9. Identifiable Intangible Assets	27
Note 10. Goodwill, Net	28
Note 11. Deferred Charges and Other Assets	29
Note 12. Environmental Matters	29
Note 13. Indebtedness	30
Note 14. Common Stock and Warrants	35
Note 15. Perpetual Convertible Preferred Stock	36
Note 16. Income Tax Provision	36
Note 17. Accrued Expenses	42
Note 18. Other Noncurrent Liabilities	43
Note 19. Financial Instruments and Fair Value Measurements	43
Note 20. Pension	44
Note 21. Share-Based Payments	52
Note 22. Accumulated Other Comprehensive Loss	54
Note 23. Impairment and Restructuring Charges	55
Note 24. Other, Net	56
Note 25. Leases	57
Note 26. Summary Business Segment Data	60
Note 27. Commitments and Contingencies	64
Note 28. Subsequent Events	64

## Independent Auditors' Report

The Board of Directors  
Sequa Corporation:

We have audited the accompanying consolidated financial statements of Sequa Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive loss, cash flows and shareholder's deficit for each of the years in the three-year period ended December 31, 2020, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2020 in accordance with U.S. generally accepted accounting principles.

### *Emphasis of Matter*

As discussed in Note 2 to the consolidated financial statements, in 2020, the Company adopted new accounting guidance, Accounting Standards Update (ASU) 2016-02, "Leases," as codified (ASC Topic 842). Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the consolidated financial statements, in 2019, the Company adopted new accounting guidance, Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers," as codified (ASC Topic 606), and ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". Our opinion is not modified with respect to these matters.

/s/KPMG LLP

New York, New York  
April 7, 2021

**SEQUA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands)

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 100,399	\$ 57,150
Trade receivables, net (Note 4)	129,516	83,936
Unbilled receivables	87,073	101,988
Inventories (Note 5)	221,380	181,239
Tax receivable (Note 16)	8,895	8,895
Other current assets	19,111	16,390
Total current assets	<u>566,374</u>	<u>449,598</u>
<b>Investments and other receivables (Note 6)</b>	<u>120,742</u>	<u>104,184</u>
<b>Property, plant and equipment, net (Note 8)</b>	<u>302,103</u>	<u>382,895</u>
<b>Other assets</b>		
Identifiable intangible assets (Note 9)	154,837	209,025
Goodwill, net (Note 10)	224,778	269,101
Right of use lease assets (Note 25)	75,678	—
Deferred tax asset (Note 16)	9,370	9,118
Tax receivable (Note 16)	—	8,895
Deferred charges and other assets (Note 11)	7,202	3,633
Total other assets	<u>471,865</u>	<u>499,772</u>
<b>Total assets</b>	<u><u>\$ 1,461,084</u></u>	<u><u>\$ 1,436,449</u></u>

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

**SEQUA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands)

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b>LIABILITIES, PREFERRED STOCK AND SHAREHOLDER'S DEFICIT</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt (Note 13)	\$ 5,343	\$ 26,514
Accounts payable	145,156	185,707
Current operating lease liability (Note 25)	8,123	—
Taxes on income	2,355	3,220
Accrued expenses (Note 3 and Note 17)	131,942	141,945
Total current liabilities	<u>292,919</u>	<u>357,386</u>
<b>Noncurrent liabilities</b>		
Long-term debt (Note 13)	1,400,722	1,253,734
Defined benefit pension plan (Note 20)	118,402	111,010
Long-term operating lease liability (Note 25)	29,341	—
Deferred income taxes (Note 16)	3,705	6,111
Discontinued operations (Note 7)	1,106	1,259
Other noncurrent liabilities (Note 18)	64,686	61,177
Total noncurrent liabilities	<u>1,617,962</u>	<u>1,433,291</u>
<b>Commitments and contingencies (Note 27)</b>		
<b>Preferred stock (Note 15) - \$0.01 par value, 2,084,615 and 1,875,631 shares authorized and 782,117 and 643,345 issued and outstanding at December 31, 2020 and December 31, 2019</b>	<b>842,088</b>	<b>702,031</b>
<b>Shareholder's deficit</b>		
Common stock - \$0.01 par value, 266,201,989 shares authorized; 3,300,000 shares issued at December 31, 2020 and December 31, 2019	—	—
Warrants	26,433	26,433
Capital in excess of par value	1,003,248	1,003,248
Accumulated deficit	(2,153,742)	(1,925,579)
Accumulated other comprehensive loss (Note 22)	(185,152)	(179,208)
Total shareholder's deficit	<u>(1,309,213)</u>	<u>(1,075,106)</u>
Noncontrolling interests	17,328	18,847
Total deficit	<u>(1,291,885)</u>	<u>(1,056,259)</u>
<b>Total liabilities, preferred stock and shareholder's deficit</b>	<b><u>\$ 1,461,084</u></b>	<b><u>\$ 1,436,449</u></b>

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

**SEQUA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
<b>Sales</b>	\$ 1,272,249	\$ 1,489,577	\$ 1,407,478
<b>Costs and expenses</b>			
Cost of sales	1,031,526	1,186,166	1,155,643
Cost of sales restructuring and non-cash asset impairment charges (Note 23)	4,650	3,406	11,208
Total cost of sales	1,036,176	1,189,572	1,166,851
Selling, general and administrative	209,028	227,848	208,370
Selling, general and administrative restructuring charges (Note 23)	5,109	2,656	6,878
Total selling, general and administrative	214,137	230,504	215,248
Non-cash asset impairment charges (Note 23)	55,902	—	—
Total cost and expenses	1,306,215	1,420,076	1,382,099
<b>Gain on sale of facility</b>	43,380	—	—
<b>Operating income</b>	9,414	69,501	25,379
<b>Other (expense) income</b>			
Interest expense	(135,933)	(130,380)	(119,952)
Interest income	15	46	39
Share of (loss) income of unconsolidated joint ventures (Note 6)	(12,512)	4,210	4,989
Foreign currency exchange gains (losses)	7,426	2,987	(14,543)
Other components of net periodic pension cost	(4,967)	(6,270)	(13,442)
Other, net (Note 24)	(1,056)	(3,225)	(4,169)
<b>Loss from continuing operations before income taxes</b>	(137,613)	(63,131)	(121,699)
Income tax provision (benefit) (Note 16)	1,153	(858)	(17,558)
<b>Loss from continuing operations</b>	(138,766)	(62,273)	(104,141)
Loss from discontinued operations (Note 7)	(989)	(1,481)	(510)
<b>Net loss</b>	(139,755)	(63,754)	(104,651)
Less: Net loss attributable to noncontrolling interests	(1,519)	(902)	(1,155)
<b>Net loss attributable to Sequa Corporation</b>	\$ (138,236)	\$ (62,852)	\$ (103,496)

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

**SEQUA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Amounts in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
<b>Net Loss</b>	<u>\$ (139,755)</u>	<u>\$ (63,754)</u>	<u>\$ (104,651)</u>
<b>Other comprehensive (loss) gain:</b>			
Defined benefit plans, net of tax	(5,274)	1,370	(557)
Foreign currency translation	<u>(670)</u>	<u>5,196</u>	<u>1,018</u>
Other comprehensive (loss) gain	<u>(5,944)</u>	<u>6,566</u>	<u>461</u>
<b>Comprehensive loss</b>	(145,699)	(57,188)	(104,190)
Less: Comprehensive loss attributable to noncontrolling interests	<u>(1,519)</u>	<u>(902)</u>	<u>(1,155)</u>
<b>Comprehensive loss attributable to Sequa Corporation</b>	<u><u>\$ (144,180)</u></u>	<u><u>\$ (56,286)</u></u>	<u><u>\$ (103,035)</u></u>

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

**SEQUA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
<b>Cash flows from operating activities:</b>			
Loss from continuing operations	\$ (138,766)	\$ (62,273)	\$ (104,141)
Adjustments to reconcile loss from continuing operations to net cash provided by (used for) operating activities:			
Depreciation and amortization	113,508	115,035	116,509
Deferred income taxes	(70)	(7,205)	(21,971)
Non-cash asset impairment charges	55,902	456	—
Settlement charges on termination of supplemental retirement plan	—	—	10,541
Provision for losses on receivables	1,304	582	309
Equity in income of unconsolidated joint ventures, net of earnings distributions received	23,970	4,431	267
PIK interest	11,272	—	—
Foreign currency exchange (gains) losses	(7,426)	(2,987)	14,543
Amortization of deferred financing costs and original issue discount	14,998	11,366	11,446
Net gain on sale of property, plant and equipment and investments, including amortization of gain on sale leaseback	(896)	(2,415)	(3,351)
Gain on sale of facility	(43,380)	—	—
Other items not providing cash	5,024	5,272	2,319
Changes in operating assets and liabilities:			
Trade and unbilled receivables	43,349	3,126	27,602
Accounts receivable settled under Receivables Purchase Facility	(75,000)	—	—
Inventories	(43,339)	(22,207)	(11,856)
Other current assets	(2,792)	17,791	(4,172)
Accounts payable and accrued expenses	(52,934)	20,762	(79,320)
Other noncurrent assets	2,806	—	—
Other noncurrent liabilities	642	(8,412)	(14,962)
Net cash (used for) provided by operating activities of continuing operations	(91,828)	73,322	(56,237)
Net cash used for operating activities of discontinued operations	(964)	(1,363)	(380)
Net cash (used for) provided by operating activities	(92,792)	71,959	(56,617)
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(42,482)	(50,789)	(45,307)
Sales of property, plant and equipment	151	2,867	56,079
Proceeds from corporate owned life insurance	—	—	32,829
Proceeds from sale of facility	67,703	11,293	—
Investment in joint ventures	(37,209)	(34,228)	(4,498)
Net cash (used for) provided by investing activities	(11,837)	(70,857)	39,103
<b>Cash flows from financing activities:</b>			
Borrowings under revolving line of credit facilities	139,996	255,723	291,925
Repayments under revolving line of credit facilities	(142,290)	(246,372)	(291,065)
Proceeds from debt, net of issuance costs	195,033	—	381
Repayment of debt	(83,977)	(10,339)	(11,018)
Proceeds from issuance of preferred stock, net of issuance costs	50,129	—	—
Payment of deferred financing costs	(8,428)	—	—
Finance lease payments	(4,498)	(5,396)	(2,932)
Contributions by noncontrolling interests	—	10,800	—
Net cash provided by (used for) financing activities	145,965	4,416	(12,709)



	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Effect of exchange rate changes on cash and cash equivalents	1,913	(2,207)	769
<b>Net increase (decrease) in cash and cash equivalents</b>	43,249	3,311	(29,454)
Cash and cash equivalents at beginning of period	57,150	53,839	83,293
Cash and cash equivalents at end of period	<u>\$ 100,399</u>	<u>\$ 57,150</u>	<u>\$ 53,839</u>
Supplemental cash flow information:			
Cash paid during the period for:			
Income taxes	\$ 4,248	\$ 5,809	\$ 5,800
Interest, net of amounts capitalized	<u>\$ 96,691</u>	<u>\$ 118,974</u>	<u>\$ 92,511</u>
Non-cash investing and financing activities:			
Paid-in-kind dividends on preferred stock	\$ 89,927	\$ 84,347	\$ 84,347
Paid-in-kind debt issue costs	\$ 25,380	\$ —	\$ —
Assets acquired under finance lease obligations	<u>\$ 142</u>	<u>\$ 2,681</u>	<u>\$ 39,648</u>

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

**SEQUA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF SHAREHOLDER'S DEFICIT**  
(Amounts in thousands)

	<b>Warrants</b>	<b>Capital in Excess of Par Value</b>	<b>Accumulated Deficit</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Shareholder's Deficit</b>	<b>Non- Controlling Interests</b>	<b>Total Deficit</b>
<b>Balance at December 31, 2017</b>	\$ 26,433	\$ 1,003,248	\$ (1,608,234)	\$ (186,235)	\$ (764,788)	\$ 10,104	\$ (754,684)
Preferred stock dividends	—	—	(84,347)	—	(84,347)	—	(84,347)
Net loss attributable to Sequa Corporation	—	—	(103,496)	—	(103,496)	—	(103,496)
Other comprehensive gain	—	—	—	461	461	—	461
Losses from noncontrolling interests	—	—	—	—	—	(1,155)	(1,155)
<b>Balance at December 31, 2018</b>	\$ 26,433	\$ 1,003,248	\$ (1,796,077)	\$ (185,774)	\$ (952,170)	\$ 8,949	\$ (943,221)
Impact of adoption of ASC 606	—	—	17,697	—	17,697	—	17,697
Preferred stock dividends	—	—	(84,347)	—	(84,347)	—	(84,347)
Net loss attributable to Sequa Corporation	—	—	(62,852)	—	(62,852)	—	(62,852)
Other comprehensive gain	—	—	—	6,566	6,566	—	6,566
Contributions by noncontrolling interests	—	—	—	—	—	10,800	10,800
Losses from noncontrolling interests	—	—	—	—	—	(902)	(902)
<b>Balance at December 31, 2019</b>	\$ 26,433	\$ 1,003,248	\$ (1,925,579)	\$ (179,208)	\$ (1,075,106)	\$ 18,847	\$ (1,056,259)
Preferred stock dividends	—	—	(89,927)	—	(89,927)	—	(89,927)
Net loss attributable to Sequa Corporation	—	—	(138,236)	—	(138,236)	—	(138,236)
Other comprehensive loss	—	—	—	(5,944)	(5,944)	—	(5,944)
Losses from noncontrolling interests	—	—	—	—	—	(1,519)	(1,519)
<b>Balance at December 31, 2020</b>	<u>\$ 26,433</u>	<u>\$ 1,003,248</u>	<u>\$ (2,153,742)</u>	<u>\$ (185,152)</u>	<u>\$ (1,309,213)</u>	<u>\$ 17,328</u>	<u>\$ (1,291,885)</u>

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

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Business**

In July 2007, Sequa Corporation entered into an Agreement and Plan of Merger with Blue Jay Acquisition Corporation (“Parent”) and Blue Jay Merger Corporation (“Merger Co.”), a wholly owned subsidiary of Parent. Parent and Merger Co. are entities directly and indirectly owned by Carlyle Partners V, L.P. and its affiliates (collectively, “Carlyle”). On December 3, 2007, Sequa Corporation merged with Merger Co. (the “Merger”) and Sequa Corporation, as the surviving corporation, became a wholly owned subsidiary of Parent. The terms “Sequa,” the “Company,” “we,” “our” and “us” each refer to Sequa Corporation and its subsidiaries, unless the context indicates otherwise.

Sequa Corporation, which was incorporated in 1929, is a diversified industrial company that delivers highly engineered products and services through operating units in three business segments: Aerospace, Metal Coating and Other Products. The terms “Sequa,” the “Company,” “we,” “our” and “us” each refer to Sequa Corporation and its subsidiaries, unless the context indicates otherwise.

On February 1, 2019, the Company sold 100% of the shares of Chromalloy France S.A.S., one of its manufacturing facilities within the Aerospace segment, to Revima Group S.A.S., a France-based major global player in the MRO market, specializing in the maintenance and repair of landing gear and small engines, for proceeds of €9,816,000 (approximately \$11,000,000). A \$551,000 loss was recorded on the sale and recorded in Other, Net in the Consolidated Statements of Operations.

On December 1, 2020, the Company sold the assets of one of its manufacturing facilities within the Metal Coating segment located in Armorel, AR, to Nucor Coatings Corporation for proceeds of \$67,703,000. A \$43,380,000 gain was recorded on the sale and recorded in Other, Net in the Consolidated Statements of Operations.

The pandemic caused by an outbreak of a new strain of coronavirus (“COVID-19”) has resulted, and is likely to continue to result, in significant national and global economic disruption. The pandemic has also resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and the pandemic, and, as a result, the ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent and duration of COVID-19’s impact on our business, our operations, or the global economy as a whole. However, the Company believes this may continue to have a direct impact on our business primarily due to a decrease in airline travel that could result in reduced maintenance for our customers’ aircraft fleets. During 2020, the Company recorded a non-cash asset impairment charge primarily related to the Trac OEM Machining business within the Aerospace segment (see Note 23).

The following is a narrative description of Sequa’s business segments:

**Aerospace**

The Aerospace segment consists solely of Chromalloy Gas Turbine, LLC (“Chromalloy”), Sequa’s largest operating unit. Chromalloy repairs and manufactures turbine engine components, principally for domestic and international airlines, air cargo, original equipment manufacturers (“OEMs”), engine overhaul providers and the

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. military. In addition, the unit manufactures and repairs components for marine and land-based aero-derivative and industrial turbine engines used for power generation.

Chromalloy possesses significant know how and broad process technologies that enable the development and support of proprietary engine parts and proprietary engine repairs that economically and safely extend engine life. Over the years, Chromalloy has invested in research and development projects leading to the development of ceramic coatings, vacuum plasma coatings, advanced laser drilling and welding and diffused precious metal/aluminide coatings. Chromalloy has introduced a series of innovative and, in some cases, both sole-sourced and proprietary processes that allow engines to perform at improved efficiency levels, at higher operating temperatures and under severe environmental conditions.

The manufacture and repair of aircraft engines and turbines is a competitive business, and Chromalloy's strategy has successfully expanded to include certain, value add-engine management services for our customers and utilizes long-term contracts under which Chromalloy assumes the exclusive right to provide maintenance and other services for both OEMs and operators of the engines.

Chromalloy's strategy includes the active pursuit of joint venture opportunities aimed at strengthening its ties to certain OEMs, engine owners and lessors.

**Metal Coating**

The Metal Coating segment consists solely of Precoat Metals ("Precoat") which is the leading independent continuous steel and aluminum coil coating operation in North America.

Precoat's largest end-market is the building products industry, where coated steel is used for the construction of pre-engineered building systems and as components in the industrial, commercial, agricultural and residential sectors. Precoat also serves other product markets, including appliance, residential roofing, heating, ventilating and air conditioning ("HVAC") units, transportation and beverage and food containers.

**Other**

The Other Products segment consists solely of Centor Company ("Centor"). Centor is a real estate holding company through which Sequa records gains or losses on the sale of properties that are extraneous to Sequa's core operations.

**Note 2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements of Sequa include the accounts of all majority owned subsidiaries. All material accounts and transactions between the consolidated subsidiaries are eliminated in consolidation.

The Company consolidates entities in which it has a controlling financial interest based on either the variable interest entity (VIE) or voting interest model. The Company is required to first apply the VIE model to determine whether it holds a variable interest in an entity, and if so, whether the entity is a VIE. The Company consolidates entities that are VIEs when the Company determines it is the primary beneficiary. Generally, the primary beneficiary of a VIE is a reporting entity that has (a) the power to direct the activities that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses of, or the right to receive benefits

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

from, the VIE that could potentially be significant to the VIE. If the Company determines it does not hold a variable interest in a VIE, it then applies the voting interest model. Under the voting interest model, the Company consolidates an entity when it holds a majority voting interest in and has effective control of an entity.

The Company accounts for investments in which it has significant influence but not a controlling financial interest using the equity method of accounting (see Note 6).

Sequa Receivables Corporation ("SRC"), a wholly owned subsidiary of Sequa engaged in selling an undivided percentage ownership interest in Sequa's eligible trade receivables (see Note 4 for further discussion), is a consolidated Variable Interest Entity ("VIE"). SRC's assets are available to satisfy its obligations to the bank-administered multi-seller commercial paper conduit, and SRC bears the risk of loss relative to uncollectible receivables. Sequa's trade receivables are net of receivables sold under the Receivables Purchase Agreement ("RPA").

Chromalloy Arabia LLC ("Chromalloy Arabia"), a joint venture whose purpose is to perform services on gas turbine parts for use in power generation, commercial aircraft engines and military aircraft engines, is also a VIE. Services are provided to customers in the Kingdom of Saudi Arabia, the other Countries of the Gulf Cooperation Council and the Hashemite Kingdom of Jordan, collectively "the Territory," on an exclusive basis. Chromalloy holds a 51% ownership interest in Chromalloy Arabia and maintains operational control of the joint venture. Chromalloy Arabia has the right to all sales in the region, as defined in the joint venture agreement. On March 2, 2020, the Company acquired 49% of the outstanding Chromalloy Arabia shares owned by our joint venture partner for minimal consideration.

High Turbine Technologies LLC ("HTT"), is a joint venture aimed at developing, marketing and distributing aerospace engine parts. HTT has exclusive rights to sell these parts to all unrelated parties upon their development. Chromalloy holds a 75% ownership interest in HTT and maintains operating control of the joint venture. HTT is a VIE, and the financial statements of HTT are consolidated with those of Sequa in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810.

Chromalloy has a joint venture with Siemens, Advanced Airfoil Components ("AAC"), for the development of an advanced castings facility to produce casted turbine engine blades and vanes. Chromalloy owns 49% of the joint venture and Siemens owns 51%. In accordance with the equity method of accounting, the Company records its proportional share of the profits of the venture as a share of income of unconsolidated joint ventures in the Consolidated Statements of Operations.

Chromalloy SASOF IV LLC ("SASOF IV"), a joint venture between Chromalloy and a wholly owned subsidiary of Carlyle Aviation Partners, which purchases certain engines from another affiliate of Carlyle Aviation Partners. The joint venture consigns the engines to Chromalloy for teardown, repair and sale of the parts to the marketplace. Chromalloy owns 50% of the joint venture and a subsidiary of Carlyle Aviation Partners owns 50%. In accordance with the equity method of accounting, the Company records its proportional share of the profits of the venture as a share of income of unconsolidated joint ventures in the Consolidated Statements of Operations.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Use of Estimates***

The preparation of the accompanying consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable, inventories, goodwill, intangible assets and other long-lived assets, legal contingencies, guarantee obligations, indemnifications and assumptions used in the calculation of income taxes, retirement and other post-employment benefits and associated plan assets and customer incentives, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Liabilities of discontinued operations reflected on the Consolidated Balance Sheets primarily relate to certain legal and other liabilities excluded from the sales of operations divested in prior years.

***Cash and Cash Equivalents***

Sequa considers time deposits, certificates of deposit and marketable securities with maturities of three months or less from date of purchase to be cash equivalents. Where the right of offset exists, Sequa has netted overdrafts with unrestricted cash and cash equivalents.

***Trade Receivables, Net***

Trade account receivables are recorded at the invoiced amount. The Company maintains an allowance for doubtful accounts based on an assessment of customer financial condition, credit worthiness and interactions with the customers. The allowances for doubtful accounts are established through a combination of specific identification of problem accounts and percentages of aging brackets based on actual historical experience. Estimates with regard to collectability of trade receivables are reasonably likely to change in the future.

***Inventories***

Inventories are stated at the lower of cost or net realizable value with cost determined primarily on a first-in, first-out basis.

The Aerospace segment, which consists solely of Chromalloy, maintains significant inventories of parts to serve the commercial aviation repair market and is potentially exposed to any significant decrease in demand as a result of our customers' fleet requirements, contract losses or customer insolvency. In order to ensure that any obsolete or slow-moving inventory is properly identified and valued, Chromalloy has in place a policy that mandates minimum write-down requirements based on quantities in excess of expected usage. The policy provides for a consistent and systematic approach to valuing inventory at the lower of cost or net realizable value, with inventory values reassessed quarterly and at year-end for adequacy.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Property, Plant and Equipment, Net***

Property, plant and equipment are stated at cost. Depreciation on plant and equipment is computed using a straight-line method over the estimated useful lives of assets as follows: land improvements, 20 years; buildings and improvements, 20 to 40 years; and machinery and equipment, 2 to 16 years. Repairs and maintenance are charged to operations as incurred, and expenditures for additions and improvements are capitalized at cost.

Sequa periodically evaluates whether current facts or circumstances indicate that the carrying amount of its property, plant and equipment may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, Sequa estimates the undiscounted future cash flows (excluding interest) resulting from the use of the asset (or asset group) and its ultimate disposition. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, Sequa recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. In connection with the decreased sales as a result of the COVID-19 pandemic, pursuant to FASB ASC Topic 360, "*Property, Plant, and Equipment*" ("FASB ASC Topic 360"), the Company performed an impairment review of its machinery and equipment resulting in non-cash asset impairment charges of \$16,208,000 in 2020, primarily related to the Trac OEM Machining business within the Aerospace segment (see Note 23).

Interest costs incurred on significant construction projects are capitalized as a cost of the project.

***Goodwill and Other Intangible Assets***

In accordance with FASB Accounting Standards Update ("ASU") 2014-02, "*Accounting for Goodwill*," the company amortizes goodwill on a straight-line basis over ten years and performs a one-step impairment test, at the reporting unit level, only when an event or circumstances indicates that the fair value of the reporting unit may be less than its carrying amount. When performing the one-step goodwill impairment test, the Company estimates the fair value of the reporting units using a discounted cash flow method (an income approach).

In accordance with FASB ASC Topic 350, the Company conducts a quantitative impairment evaluation of indefinite-lived trade name intangible assets on an annual basis on October 1, and more frequently if an event occurs or circumstances change that would more likely than not indicate an asset might be impaired. The quantitative impairment evaluation for the Company's indefinite-lived trade names involves comparing the estimated fair value of the assets to the carrying amounts, to determine if fair value is lower and a write-down required. If the carrying amount of a trade name exceeds its estimated fair value, an impairment charge is recognized in an amount equal to the excess. The fair value of these assets is determined using the relief from royalty method, which is a form of the income approach. In this method, the value of the asset is calculated by selecting royalty rates, which estimate the amount a company would be willing to pay for the use of the asset. These rates are applied to the Company's projected revenue, tax affected and discounted to present value using an appropriate rate. The COVID-19 pandemic was a triggering event for testing whether goodwill has been impaired for the Aerospace segment. The Company performed a quantitative assessment and determined it was more likely than not that the fair value exceeded the carrying value as of October 1, 2020 (See Note 10).

The Company reviews amortizable intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset exceeds its fair value and may not be fully recoverable. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, Sequa recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. Useful lives of amortizable intangible assets are assessed quarterly and adjusted, if necessary. The COVID-19 pandemic was a triggering event for testing whether our indefinite-lived intangible assets have been impaired. In connection

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

with the impairment analysis of its indefinite lived intangible assets described above, in 2020, the Company recorded non-cash impairment charges of \$30,229,000 and \$9,448,000 and \$17,000 on its customer relationship, trade name and software intangible assets, respectively. The primary drivers of this impairment were the decline in projected sales and profits of the Aerospace segment due to the COVID-19 global pandemic (See Note 9).

***Foreign Currency Translation***

The financial position and results of operations of Sequa's foreign subsidiaries are measured using local currency as the functional currency, with the exception of certain investment holding companies for which the U.S. Dollar has been denoted as the functional currency. Assets and liabilities of operating units denominated in foreign currencies are translated into U.S. Dollars at foreign exchange rates in effect at year-end, while revenues and expenses are translated at weighted average foreign exchange rates prevailing during the year. The resulting translation gains and losses are charged or credited directly to accumulated other comprehensive income (loss), a separate component of shareholder's deficit, and are not included in net (loss) income until realized through sale or liquidation of the investment.

***Environmental Remediation and Compliance***

Sequa's legal department, under senior management's direction, monitors activities related to Sequa's involvement in environmental cleanup. This department evaluates individual sites with respect to which Sequa may be considered a potentially responsible party under applicable federal or state laws. Projected expenditures, which are reviewed periodically, include: remedial investigation and feasibility studies; outside legal, consulting and remediation project management fees; the projected cost of remediation activities; and site closure and post-remediation monitoring costs. The assessments take into account currently available facts, existing technology, presently enacted laws, past expenditures and other potentially responsible parties and their probable level of involvement. Outside technical, scientific and legal consulting services are used to support management's assessments of costs at significant individual sites.

For environmental liabilities that are not being recorded in connection with a business acquisition, Sequa's policy is to accrue undiscounted environmental remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

***Revenue Recognition***

Effective January 1, 2019, the Company adopted FASB ASU 2014-09, which, as amended, was codified as ASC Topic 606, "Revenue from Contracts with Customers." Pursuant to ASC Topic 606, the Company recognizes revenue when it transfers control of a promised good or service to a customer in an amount that reflects the consideration it expects to receive in exchange for the goods or service. The Company's performance obligations are satisfied and control is transferred either over-time or at a point-in-time.

The Company recognizes revenue using the over-time recognition model for contracts under which the Company either creates or enhances a customer-owned asset while performing repair and overhaul services or produces products with no alternative use and for which it has an enforceable rights to recover costs incurred plus a reasonable profit margin for work completed to date. These types of contracts represent the majority of the Company's revenue transactions, and revenue is recognized based on the extent of progress toward completion using a cost-based input measure of progress.



**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For certain contracts, revenue is recognized at a point-in-time when control is transferred, which is generally evidenced by the shipment or delivery of the product to the customer, a transfer of title, a transfer of significant risks and rewards of ownership, and/or customer acceptance. Refer to Note 3 for additional detail.

***Research and Development***

Research and development costs charged to expense as incurred amounted to \$16,550,000, \$12,615,000 and \$22,649,000 in the years ended December 31, 2020, 2019 and 2018, respectively, and are recorded in both cost of sales and selling, general and administrative in the Consolidated Statements of Operations.

***Pensions***

Pension expense and pension liabilities are actuarially determined and are affected by management's economic assumptions with respect to the discount rate for obligations, the expected long-term rate of return on plan assets and mortality assumptions. Pension expense and liabilities can also be affected by plan demographic experience and the actual return on plan assets. The discount rate is based on an analysis of discounted cash flows using an interest spot rate curve in conjunction with a further review of high-grade corporate long-term bond rates. The expected long-term rate of return considers the allocation of plan assets, the historical performance of total plan assets and economic and other indicators of future performance. In addition, Sequa may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks. Changes in the discount rate and the expected long-term rate of return on plan assets, as well as actual returns on plan assets that differ from the expected return, can have a significant impact on pension expense and related liabilities. A decrease of one percentage point in the discount rate applied to projected benefit obligations would decrease the annual pension expense by \$600,000. A decrease of one percentage point in the assumed rate of return on plan assets of Sequa's significant defined benefit plan would increase the annual pension expense by \$3,000,000. Mortality assumptions are also a critical component of defined benefit pension liabilities and a key factor in determining the expected length of time for annuity payments.

Sequa contributes to a multiemployer defined benefit plan under the terms of a collective-bargaining agreement that was entered into on September 18, 2012, which covers all production and maintenance employees employed by the Chromalloy New York division of Chromalloy Gas Turbine Corporation. The collective-bargaining agreement was extended through September 18, 2021 as a result of a Memorandum of Understanding that was agreed to in October 2018. If Sequa chooses to stop participating in the multiemployer plan, we may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses. Additionally, the Company treats the tax effects of Global Intangible Low-Taxed Income ("GILTI") as period expenses.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Leases***

Contracts are evaluated at inception to determine whether they contain a lease. Operating lease right-of use ("ROU") assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the lease commencement date for operating leases with an initial term greater than 12 months. The Company recognizes lease expense for minimum lease payments on a straight-line basis over the term of the lease. Certain leases are evaluated for finance lease consideration. The depreciable life of leased assets are limited by the expected term of the lease, unless there is a transfer of title or purchase option and the Company believes it is reasonably certain of exercise. The Company utilizes its incremental borrowing rate by lease term to calculate the present value of our future lease payments if an implicit rate is not specified (See Note 25).

**Recently Adopted Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASC Topic 842"), which amended the existing accounting standards for lease accounting. The new standard requires a lessee to recognize in its balance sheet (for both finance and operating leases) a liability to make lease payments ("lease liability") and a right-of-use ("ROU") asset representing its right to use the underlying asset for the lease term. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. The amendments for non-public companies are effective for fiscal years, beginning after December 15, 2020, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption of the standard is permitted.

The Company adopted the new lease accounting standard using the modified retrospective approach for annual and interim periods beginning January 1, 2020 and has elected to apply the provisions of the standard on the date of adoption. Accordingly, the Company did not restate prior year comparative periods to report the impact of the new lease accounting standard for those periods.

The FASB has made available several practical expedients in adopting the amended lease accounting guidance. The Company elected the package of practical expedients and applied consistently to all leases, which among other things, allows the Company to carry forward historical lease classification, lease identification and treatment of initial direct costs.

Upon adoption, the Company recognized operating lease ROU assets of \$32,302,000 and liabilities of \$33,205,000, with the \$903,000 difference due to prepaid and deferred rent that were reclassified to the ROU asset value. Additionally, finance lease assets of \$41,540,000 that prior to the adoption of ASC 842 had been classified as capital lease assets in Property, Plant and Equipment, Net are classified as finance lease-related ROU assets on the Consolidated Balance Sheets as of December 31, 2020.

The adoption of ASC Topic 842 did not have material impact to the Company's Consolidated Statements of Operations or Cash Flows.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which is intended to simplify the current test for goodwill impairment by eliminating the second step in which the implied value of a reporting unit is calculated when the carrying value of the reporting unit exceeds its fair value. Under ASU 2017-04, goodwill impairment should be recognized for the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 must be applied prospectively and is effective for any annual or interim goodwill impairment test in fiscal years beginning after

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 15, 2019. Early adoption is permitted. The Company adopted this standard in the second quarter of 2020.

Effective January 1, 2019, the Company adopted FASB ASU 2014-09, “Revenue from Contracts with Customers,” as modified (ASC 606). The Company applied ASC 606 using the modified retrospective transition method by recognizing a cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of accumulated deficit at January 1, 2019, which decreased accumulated deficit by \$17,697,000. The Company’s historical periods have not been adjusted and continue to be reported under ASC 605 “Revenue Recognition.” See Note 3 for additional details.

The following table includes information for the transition adjustment recorded as of January 1, 2019 to record the cumulative impact of adoption of ASC 606 for prior periods:

	<u>As Reported December 31, 2018</u>	<u>ASC 606 Transition Adjustment</u>	<u>As Adjusted January 1, 2019</u>
		(Amounts in thousands)	
<u>Assets</u>			
Unbilled receivables	\$ 974	\$ 111,020	\$ 111,994
Inventories	253,590	(93,323)	160,267
<u>Liabilities and equity</u>			
Unearned income	\$ (22,671)	\$ —	\$ (22,671)
Accumulated deficit	(1,796,077)	17,697	(1,778,380)
Noncontrolling interests	8,949	—	8,949

Details of the significant changes are set forth below:

Aerospace:

Under ASC 606, certain of the Company’s services create or enhance an asset that our aerospace customers control. As such, revenue recognition occurs over-time which differs from the point-in-time recognition method as outlined under ASC 605 prior to January 1, 2019. Aerospace engine and parts sales, and certain services provided, will remain consistent with ASC 605 and will not be recognized until the performance obligation is completed (point-in-time method).

Metal Coating:

The Company’s coating and related services performed which accounts for substantially all the metal coating revenue creates or enhances an asset that the customer controls. Therefore, under ASC 606, revenue is recognized over-time which differs from the ASC 605 recognition method of point-in-time prior to January 1, 2019.

Effective January 1, 2019, the Company adopted ASU 2017-07, “*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*,” which requires companies to present the service cost component of net benefit cost in the Statement of Operations where they report compensation cost, and all other components of net periodic benefit cost in the Statement of Operations separately from the service cost component and outside of operating income. The Company has applied ASU 2017-07 retrospectively and has reclassified all other components of net periodic benefit cost, other than service cost, from Cost of Sales and Selling and administrative expenses to Other income (expense) on the Consolidated Statements of Operations.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Accordingly, for all periods presented in the Consolidated Statement of Operations, the service cost component of net periodic pension benefit cost is recorded in Cost of Sales and Selling and Administrative expenses with the remaining components of net periodic pension benefit costs recorded within Other income (expense).

The table below summarizes the impact of adoption of ASU No. 2017-07 for the year ended December 31, 2018:

	For the year ended December 31, 2018		
	As Reported	Impact of Adoption of ASU 2017-07	As Restated
	(Amounts in thousands)		
Operating costs and expenses:			
Total cost of sales	\$ 1,167,368	\$ (517)	\$ 1,166,851
Total selling, general and administrative	\$ 228,173	\$ (12,925)	\$ 215,248
Non-operating other income (expense):			
Other components of net periodic pension cost	\$ —	\$ (13,442)	\$ (13,442)

**Accounting Standards Issued but Not Yet Adopted**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (“ASC Topic 326”), Measurement of Credit Losses on Financial Instruments. This ASU requires a change in the measurement approach for credit losses on financial assets measured on an amortized cost basis from an incurred loss method to an expected loss method, thereby eliminating the requirement that a credit loss be considered probable to impact the valuation of a financial asset measured on an amortized cost basis. This ASU also requires the measurement of expected credit losses to be based on relevant information about past events, including historical experience, current conditions, and a reasonable and supportable forecast of the collectability of the related financial asset. The Company continues to evaluate the impact of this ASU on our consolidated financial statements.

**Note 3. Revenue Recognition**

In accordance with ASC 606, the Company recognizes revenue when it transfers control of a promised good or service to a customer in an amount that reflects the consideration it expects to receive in exchange for the goods or service. The Company’s performance obligations are satisfied, and control is transferred, either over-time or at a point-in-time.

The Company recognizes revenue using the over-time recognition model for contracts under which the Company enhances a customer-owned assets while performing services or produces products with no alternative use and for which it has an enforceable rights to recover costs incurred plus a reasonable profit margin for work completed to date. These types of contracts represent the majority of the Company’s revenue transactions. For certain contracts, revenue is recognized at a point-in-time when control is transferred, which is generally evidenced by the shipment or delivery of the product to the customer, a transfer of title, a transfer of significant risks and rewards of ownership, and customer acceptance.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Contracts with Customers**

The Company accounts for a contract with a customer when it has approval and commitment from both parties, the rights of the parties are identified, the payments terms are identified, the contract has commercial substance, and it is probable the Company will collect consideration to which it is entitled to receive. Customer payment terms related to the sale of products and rendering of services vary by Company subsidiary and product line. The timing between recognition of revenue and receipt of payment for satisfaction of the related performance obligation is not significant. Within the Aerospace segment, there are often long-term purchase and supply agreements between Chromalloy and its customers which include predetermined pricing. The issuance of a purchase order on a standalone basis or under the long-term agreements is the point at which a contract is identified for accounting and financial reporting purposes as this is the point when enforceable rights and obligations are established.

For the Metal Coating segment, generally there are limited long-term service agreements between the Company and their customers. Typically, a contract for coating services is established by the customer's submission of a purchase order at which point a contract is identified for accounting and financial reporting purposes as this is the point when enforceable rights and obligations are established.

Contracts may be modified to account for changes in specifications and requirements. The Company considers contractual modifications to exist when the modification either creates new rights or changes the existing enforceable rights and obligations. Contract modifications typically relate to goods or services that are distinct from the existing contracts and are accounted for as a new contract. Pricing changes, if included within a contract modification, are generally prospective.

**Performance Obligations**

A performance obligation is a promise within a contract to provide a distinct good or service to the customer in exchange for payment and is the unit of account for recognizing revenue. A contract's transaction price is allocated to each distinct performance obligations and recognized as revenue when or as the performance obligations is satisfied. The majority of the Company's contracts have a single performance obligation to transfer goods or services. For contracts with more than one performance obligation, the Company allocates the transaction price to each performance obligation based on relative standalone selling prices. When standalone selling prices are not available, the transaction price is allocated using an expected cost-plus margin approach as pricing for such contracts is typically negotiated on the basis of cost.

The Company provides assurance type warranties on its goods and services. Since customers cannot purchase such warranties independently of the products and services under contract and they are not priced separately, warranties are not separate performance obligations.

**Transaction Price**

The transaction price for a contract reflects the consideration the Company expects to receive for fully satisfying the performance obligations in the contract. Typically, the transaction price consists solely of fixed consideration but may include variable considerations such as customer rebates, credits, penalties and other provisions that may impact the total consideration the Company will receive. The Company identifies and

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

estimates variable consideration, typically at the most likely amount the Company expects to receive from its customers. Variable consideration components are considered revenue adjustments and will impact the transaction price. The Company estimates variable consideration based on prior experience, current and forecasted performance and other available information, but only to the extent it is probable that a significant reversal of revenue recognized will not occur when the uncertainty is resolved. The Company is generally not subject to collecting sales tax and has made an accounting policy election to exclude from the transaction price any sales tax.

**Contract Estimates**

The Company utilizes the cost-to-cost measure of progress for performance obligations that are satisfied over-time as we believe this measure best depicts the transfer of control to the customer, which occurs as we incur costs on contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation.

**Contract Balances**

The timing of revenue recognition, invoicing and cash collections affect the accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets.

Unbilled Receivables (Contract Assets) – Pursuant to the over-time revenue recognition model, revenue may be recognized prior to the customer being invoiced. An unbilled receivable is recorded to reflect revenue that is recognized when the cost-to-cost method is applied. Unbilled receivables are separately identified on the Consolidated Balance Sheets as of December 31, 2020.

Deferred Charges (Contract Costs) - The Company may incur costs to fulfill a contract. Certain deferred contract costs are amortized on a straight-line basis over the term of the applicable years or are recognized as a percentage of future guaranteed minimum sales.

Customer Advances and Deposits (Contract Liabilities) – The Company may receive a customer advance deposit or may have an unconditional right to receive an advance prior to revenue being recognized. Since the performance obligations of such advances may not have been satisfied, a contract liability is established. Advances are included within the accrued expenses on the Consolidated Balance Sheets until the respective revenue is recognized (see Note 17).

These assets and liabilities are reported on the Consolidated Balance Sheets on an individual contract basis at the end of each reporting period.

Changes in the Company's contract assets, costs and liabilities during 2020 were as follows:

	December 31, 2020	December 31, 2019	\$ Change
	(Amounts in thousands)		
Unbilled receivables (contract assets)	\$ 87,073	\$ 101,988	\$ (14,915)
Deferred charges (contract costs)	5,840	2,792	3,048
Unearned income (contract liabilities)	21,521	13,397	8,124

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The decrease in the Company's contract assets during 2020 reflects billing on certain customer contracts made during the year in excess of amounts recorded as additional unbilled receivables for contracts using an over-time revenue recognition model.

The increase in the Company's contract costs during 2020 reflects an increase in new contracts, partially offset by amortization on existing contracts.

The increase in the Company's contract liabilities during 2020 reflects increased contract liabilities from customer advances and deposits. The amount of revenue that the Company recognized during 2020 that was included in contract liabilities as of the beginning of 2020 was \$2,809,000.

**Practical Expedients and Optional Exemptions**

The Company elected the following practical expedients and optional exemptions allowed under ASC 606:

- For certain contracts with similar characteristics and for which revenue is recognized over-time, the Company applies the standard to a portfolio of contracts (or performance obligations) to estimate the amount of revenue to recognize. For each portfolio of contracts, the respective work in progress and/or finished goods inventory balances are identified and the portfolio specific margin is applied to estimate the transaction price to recognize in relation to the costs incurred. This approach is used only when the resulting revenue recognition is not expected to be materially different that is accounting is applied to the individual contracts.
- The Company does not adjust the amount of revenue to be recognized under a customer contract for the effects of the time value of money when the timing difference between the receipt of payment and recognition of revenue for satisfaction of the related performance obligation is less than one year.

**Disaggregation of Revenue**

The following table summarizes the Company's net sales by timing of revenue recognition for each operating segment for the years ended December 31, 2020 and December 31, 2019:

<b>For the Year Ended December 31, 2020</b>			
	<b>Aerospace</b>	<b>Metal Coating</b>	<b>Total</b>
		(Amounts in thousands)	
Satisfied over-time	\$ 443,502	\$ 599,961	\$ 1,043,463
Satisfied at a point-in-time	228,786	—	\$ 228,786
Total	<u>\$ 672,288</u>	<u>\$ 599,961</u>	<u>\$ 1,272,249</u>

<b>For the Year Ended December 31, 2019</b>			
	<b>Aerospace</b>	<b>Metal Coating</b>	<b>Total</b>
		(Amounts in thousands)	
Satisfied over-time	\$ 613,743	\$ 591,472	\$ 1,205,215
Satisfied at a point-in-time	284,362	—	\$ 284,362
Total	<u>\$ 898,105</u>	<u>\$ 591,472</u>	<u>\$ 1,489,577</u>

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4. Trade Receivables, Net**

Trade receivables at December 31, 2020 and 2019 are reduced by allowances for doubtful accounts of \$2,343,000 and \$1,039,000, respectively.

On January 12, 2017, the Company entered into an RPA, whereby SRC may sell an undivided percentage ownership interest, up to a maximum participation of \$75,000,000, in Sequa's eligible trade receivables to a bank-administered multi-seller commercial paper conduit. Effective July 31, 2020, the Company extended the availability of the RPA to December 31, 2021.

The amounts outstanding under the RPA were \$0 and \$75,000,000 at December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, Sequa incurred costs of approximately \$3,114,000 and \$4,244,000, respectively, related to the sale of the receivables. In 2020, a \$75,000,000 payment was made reducing the outstanding balance under the facility to zero and is included as Accounts Receivable Settled under Receivables Purchase Facility within Cash Flows from Operating Activities.

**Note 5. Inventories**

The inventory amounts are as follows:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	(Amounts in thousands)	
Finished goods	\$ 106,887	\$ 69,233
Work in process	38,674	29,590
Raw materials	75,819	82,416
Total inventories	<u>\$ 221,380</u>	<u>\$ 181,239</u>

The Company utilizes certain assumptions in determining the recoverability of excess, obsolete and impaired inventories, such as the historical performance of the inventory, existing and expected future aviation usage trends, estimated market values and expected future demand.

**Note 6. Investments and Other Receivables**

Sequa's investments and other receivables consist of the following items:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	(Amounts in thousands)	
Investments in unconsolidated joint ventures	\$ 114,102	\$ 98,548
Cash surrender value of corporate-owned life insurance	1,439	1,188
Other receivables	5,201	4,448
	<u>\$ 120,742</u>	<u>\$ 104,184</u>



**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Investments in unconsolidated joint ventures.* Chromalloy is a partner in joint ventures aimed at strengthening its ties to a certain original equipment manufacturer (“OEM”) and other customers, as well as ensuring close cooperation with respect to the dissemination of technical specifications and requirements. Sequa's investment in Chromalloy's joint ventures was \$114,102,000 and \$98,548,000 at December 31, 2020 and 2019, respectively. These unconsolidated joint ventures are accounted for under the equity method. Equity (loss) income from Chromalloy's joint ventures was \$(12,512,000), \$4,210,000 and \$4,989,000 for the years ended December 31, 2020, 2019 and 2018, respectively. The largest of the unconsolidated Chromalloy joint ventures are discussed in the following paragraphs.

Chromalloy has two 50/50 joint ventures with Rolls-Royce plc: Turbine Surface Technologies Ltd (“TSTL”), which provides advanced coatings for Rolls-Royce turbine components, and Turbine Repair Technologies Ltd, which provides advanced component repair services for certain Rolls-Royce engines. Sequa has guaranteed 50% of an overdraft facility for its TSTL joint venture. Total amounts subject to the guarantees may not exceed €2,500,000 (approximately \$3,416,000 at December 31, 2020). At December 31, 2020, there were no amounts outstanding related to the guarantees.

Chromalloy has a joint venture with Siemens, Advanced Airfoil Components (“AAC”), for the development of an advanced castings facility to produce casted turbine engine blades and vanes. Chromalloy owns 49% of the joint venture and Siemens owns 51%.

Chromalloy SASOF IV Participant LLC (“SASOF IV Participant LLC”) is a wholly owned subsidiary of Carlyle Aviation Partners, which purchases certain engines from an affiliate of SASOF IV Participant LLC. The joint venture consigns the engines to Chromalloy for teardown, repair and sale of the parts to the marketplace. Chromalloy owns 50% of the joint venture and SASOF IV Participant LLC owns 50%.

Summarized financial information (unaudited) for Sequa's unconsolidated joint ventures in the aggregate is as follows:

	December 31,	
	2020	2019
	(Amounts in thousands)	
Balance sheet:		
Current assets	\$ 167,850	\$ 112,357
Noncurrent assets	135,634	119,277
Current liabilities	83,550	63,824
Noncurrent liabilities	20,987	63

	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 31, 2019	Fiscal Year Ended December 31, 2018
	(Amounts in thousands)		
Statement of operations:			
Sales	\$ 139,833	\$ 183,212	\$ 130,611
Operating income	(20,582)	10,371	12,433
Net income	(23,763)	6,166	7,819

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7. Discontinued Operations**

Liabilities of discontinued operations reflected on the December 31, 2020 and 2019 Consolidated Balance Sheets primarily relate to certain legal and other liabilities excluded from the sales of divested operations.

Summarized Statements of Operations for discontinued operations are as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Income/(expense)	\$ 144	\$ (145)	\$ 50
Operating income (loss)	144	(145)	50
Other expense	(1,133)	(1,336)	(560)
Loss from discontinued operations	<u>\$ (989)</u>	<u>\$ (1,481)</u>	<u>\$ (510)</u>

**Note 8. Property, Plant and Equipment, Net**

Net property, plant and equipment, consist of the following:

	December 31, 2020	2019
	(Amounts in thousands)	
Land and improvements	\$ 28,859	\$ 30,496
Buildings and improvements	148,757	159,514
Buildings under finance leases (formerly capital leases) <sup>1</sup>	—	37,144
Machinery and equipment	682,837	688,303
Machinery and equipment under finance leases (formerly capital leases) <sup>1</sup>	—	9,483
Construction in progress	30,005	23,199
	890,458	948,139
Accumulated depreciation	<u>(588,355)</u>	<u>(565,244)</u>
	<u>\$ 302,103</u>	<u>\$ 382,895</u>

<sup>1</sup>In 2020, the Company adopted ASC Topic 842, under which assets under finance leases (formerly capital leases) are presented on the Balance Sheet as Right-of-Use assets, using the modified retrospective approach for annual and interim periods beginning January 1, 2020 and has elected to apply the provisions of the standard on the date of adoption. Accordingly, the Company did not restate prior year comparative periods to report the impact of the new lease accounting standard for those periods. For 2019, Accumulated Depreciation for Buildings and Machinery and Equipment under finance leases (formerly capital leases) was \$2,660,000 and \$2,427,000, respectively.

In connection with the decreased sales as a result of the COVID-19 pandemic, pursuant to FASB ASC Topic 360, the Company performed an impairment review of its fixed assets as of December 31, 2020, which resulted in non-cash asset impairment charges of \$16,208,000 in 2020, primarily related to the Trac OEM Machining business within the Aerospace segment (see Note 23).

Depreciation expense was \$52,604,000, \$54,128,000 and \$55,302,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During 2020 and 2019, Sequa capitalized \$2,035,000 and \$1,488,000, respectively, of interest costs associated with significant capital projects.

**Note 9. Identifiable Intangible Assets**

The carrying amount and accumulated amortization of identifiable intangible assets consisted of the following:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	(Amounts in thousands)	
Intangible assets subject to amortization:		
Customer relationships	\$ 243,799	\$ 273,747
Non-compete agreements	20,400	20,400
Trade names (definite-lived)	1,400	1,400
Leasehold interests	576	576
	<u>266,175</u>	<u>296,123</u>
Less: Accumulated amortization	(191,338)	(176,487)
Intangible assets subject to amortization, net	<u>74,837</u>	<u>119,636</u>
Trade names (indefinite-lived)	80,000	89,389
Total identifiable intangible assets	<u><u>\$ 154,837</u></u>	<u><u>\$ 209,025</u></u>

Sequa conducts an impairment evaluation of indefinite-lived intangible assets on an annual basis on October 1 and more frequently if an event occurs or circumstances change that would more likely than not indicate an asset might be impaired.

Sequa reviews amortizable intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset exceeds its fair value and may not be fully recoverable. Useful lives of amortizable intangible assets are assessed quarterly and adjusted, if necessary. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, Sequa recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. The COVID-19 pandemic was a triggering event for testing whether our indefinite-lived intangible assets have been impaired. In connection with the impairment analysis of its indefinite lived intangible assets described above, in 2020, the Company recorded non-cash impairment charges of \$30,229,000 and \$9,448,000 on its customer relationship and trade name intangible assets, respectively. The primary drivers of this impairment were related to the Trac OEM Machining business within the Aerospace segment (see Note 23).

Customer relationships have estimated lives ranging from 3 to 24 years, non-compete agreements have estimated lives of 9 years, definite-lived trade names have estimated lives of 1 to 2 years and leasehold interests have estimated lives ranging from 2 to 8 years. Amortization expense on identifiable intangible assets is recorded on a straight-line basis and was \$14,851,000, \$14,866,000 and \$14,966,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following is a summary table representing the remaining amortization of non-goodwill identifiable intangible assets, net, with definitive lives, by year:

<u>Year ending December 31,</u>	<u>Amortization</u> (Amounts in thousands)
2021	\$ 11,588
2022	11,588
2023	11,185
2024	6,763
2025	33,713
2025 and thereafter	—
Total	<u>\$ 74,837</u>

**Note 10. Goodwill, Net**

The changes in the carrying amount of goodwill are as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	(Amounts in thousands)	
Balance as of January 1		
Gross goodwill	\$ 987,842	\$ 987,338
Accumulated impairment losses	(539,417)	(539,417)
Accumulated amortization expense	(179,324)	(134,563)
Net goodwill as of January 1	<u>269,101</u>	<u>313,358</u>
Amortization expense	(44,777)	(44,761)
Currency translation	454	504
Total ending balance	<u>\$ 224,778</u>	<u>\$ 269,101</u>
Balance as of December 31		
Gross goodwill	\$ 988,296	\$ 987,842
Accumulated impairment losses	(539,417)	(539,417)
Accumulated amortization expense	(224,101)	(179,324)
Net goodwill as of December 31	<u>\$ 224,778</u>	<u>\$ 269,101</u>

In accordance with ASU 2014-02, the Company amortizes goodwill on a straight-line basis over ten years and performs a one-step impairment test at the reporting unit level, only when an event or circumstances indicates that the fair value of the reporting unit may be less than its carrying amount. The Company elected a 10-year amortization period beginning January 1, 2016.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The COVID-19 pandemic was a qualitative triggering event for testing whether goodwill has been impaired for the Aerospace segment. The Company subsequently performed a quantitative assessment and determined it was more likely than not that the fair value exceeded the carrying value as of December 31, 2020.

**Note 11. Deferred Charges and Other Assets**

Deferred charges and other assets consist of the following items:

	December 31,	
	2020	2019
	(Amounts in thousands)	
Contract costs	\$ 5,840	\$ 2,792
Debt issuance costs (Note 13)	1,333	559
Other	29	282
	<u>\$ 7,202</u>	<u>\$ 3,633</u>

Certain deferred contract costs are amortized on a straight-line basis over the term of the applicable contract which range from 1 to 10 years, and other contract costs are recognized as a percentage of future guaranteed minimum sales.

**Note 12. Environmental Matters**

The environmental reserve is evaluated annually and adjusted, as necessary, based upon changes in facts and circumstances which affect the expected cash flow estimates. Sequa recorded net charges (reversals) to the reserve relating to remediation costs for active sites of \$877,000, \$(1,539,000) and \$115,000 for the years ended December 31, 2020, 2019 and 2018, respectively. Sequa recorded discount expense related to its environmental liabilities of \$1,617,000, \$1,755,000 and \$1,767,000 for the years ended December 31, 2020, 2019 and 2018, respectively. Sequa has placed its insurance carriers on notice of a claim with respect to certain contamination and Sequa's present accruals do not consider possible additional recoveries from such carriers. At December 31, 2020 and 2019, the carrying amount of Sequa's accrual for remediation costs was \$21,103,000 and \$21,409,000, respectively, applying a discount rate of 10%. The total amount of Sequa's undiscounted environmental liabilities at December 31, 2020 and 2019 was \$45,030,000 and \$45,459,000, respectively. At December 31, 2020, Sequa's discounted range of possible additional exposure for sites with significant environmental remediation costs is estimated to range from \$24,196,000 to \$28,547,000. Actual costs to be incurred at identified sites in future periods may vary from these estimates, given the inherent uncertainties in evaluating environmental exposures. Sequa anticipates that remedial cash expenditures will be \$3,508,000 in 2021.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 13. Indebtedness**

Long-term debt, finance leases (formerly capital leases) and other financing obligations consist of the following:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	(Amounts in thousands)	
2017 First Lien Term Loan	\$ 857,504	\$ 897,000
Second Lien Credit Agreement	355,508	350,000
2020 First Lien Term Loan	196,547	—
Revolving Credit Facility	—	10,000
Other financing obligations	1,393	3,514
Finance leases	41,003	41,382
Unamortized original issue discount and debt issue costs	(45,890)	(21,648)
	<u>1,406,065</u>	<u>1,280,248</u>
Less: Current maturities	(5,343)	(26,514)
Total long-term debt	<u>\$ 1,400,722</u>	<u>\$ 1,253,734</u>

The aggregate maturities of long-term debt and other financing obligations as of December 31, 2020 are as follows:

<b>Year ending December 31,</b>	<b>Principal Payments</b>
	(Amounts in thousands)
2021	\$ 1,393
2022	—
2023	857,504
2024	355,508
2025	196,547
Total	<u>\$ 1,410,952</u>

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Future minimum payments for finance lease (formerly capital leases) obligations as of December 31, 2020 are as follows:

Year ending December 31,	Finance Lease Obligations
	(Amounts in thousands)
2021	\$ 5,197
2022	5,185
2023	4,876
2024	4,878
2025	4,172
Thereafter	62,469
Total future payments	86,777
Less: Amounts representing interest	(45,774)
Present value of minimum lease payments	<u>\$ 41,003</u>

On July 31, 2020, the Company entered into Amendment No. 3 of the First Lien Credit Agreement and Amendment No. 1 of the Second Lien Credit Agreement, together the "Refinancing Transaction." The amendment to the First and Second Lien Credit Agreements accomplished the following:

- added an additional tranche ("2020 First Lien Term Loan") loan of \$200,000,000, issued at a \$4,000,000 discount, and matures July 31, 2025
- extended the maturity date of the 2017 First Lien Term Loans to November 28, 2023
- extended the maturity date of the Second Lien Term Loans to April 28, 2024
- converted \$9,450,000 of the Revolving Credit Facility ("RCF") into First Lien Term Loans
- extended the term of the RCF whereby \$13,500,000 and \$112,050,00 will mature October 15, 2022 and August 23, 2023, respectively.

Proceeds from the Refinancing Transaction were used to repay \$107,550,000 of the outstanding borrowings under the RCF and repay \$24,001,000 and \$7,859,000 of the 2017 First Lien Term Loan and Second Lien Term Loan, respectively.

In connection with the amendments to the First and Second Lien Credit Agreements, including entering into the 2020 First Lien Term Loan, the Company recorded additional debt issue and original issue discount costs of \$40,014,000 of which \$25,380,000 was paid-in-kind increasing the outstanding borrowings of the 2017 First Lien Term Loan and Second Lien Term Loan by \$17,977,000 and \$7,403,000, respectively. In addition, the Company incurred third party costs of \$3,654,000 which were expensed to selling, general and administrative expenses as incurred.

Original issue discount and debt issue costs are amortized using the effective interest method over the terms of the facilities. Amortization of original issue discount and debt issue costs totaled \$14,998,000, \$11,366,000 and \$11,446,000 for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in interest expense in the Consolidated Statements of Operations.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On April 28, 2017, Sequa entered into the following credit facilities, which were amended on July 31, 2020:

**First Lien Credit Agreement**

The amended First Lien Credit Agreement consists of the RCF of \$125,550,000, the 2017 First Lien Term Loan of \$895,827,000 and the 2020 First Lien Term Loan of \$200,000,000.

**2017 First Lien Term Loan**

The 2017 First Lien Term Loan matures on November 28, 2023. Borrowings under the First Lien Credit Agreement bear interest at either Base Rate plus Applicable Rate or Eurocurrency Rate plus Applicable Rate. The Base Rate means a fluctuating rate equal to the highest of (a) the Federal Funds Rate (which, if negative, shall be deemed to be 0%) plus 1/2 of 1%, (b) the Prime Lending Rate, as defined, and (c) Adjusted Eurocurrency Rate plus 1%. Eurocurrency Rate equals an interest rate per annum equal to the Adjusted Eurocurrency Rate (Eurocurrency Rate multiplied by the Statutory Reserve) for such interest Period; provided that the Adjusted Eurocurrency Rate shall not be less than 1% per annum. Effective July 31, 2020, the Applicable Rate means a percentage per annum equal to 6.75% for Eurocurrency Rate Loans and 5.75% per annum for Base Rate Loans. At the Company's option, up to 1% per annum of the interest due may be paid in kind. The weighted average borrowing rate for the year ended December 31, 2020 was 8.20%.

On December 18, 2020, in connection with the sale of a facility within the Metal Coating segment, and in compliance with the mandatory repayment provisions of the Credit Agreement, the Company repaid \$38,323,000 of the 2017 First Lien Term Loan. The repayment is first applied to, and fully satisfies, the quarterly amortization payments. Therefore, there are no further quarterly amortization payments due for the duration of the 2017 First Lien Term Loan through the date of maturity.

**2020 First Lien Term Loan**

The 2020 First Lien Term Loan matures on July 31, 2025. Borrowings under the 2020 First Lien Term Loan bear interest at either Base Rate plus Applicable Rate or Eurocurrency Rate plus Applicable Rate. The Base Rate means a fluctuating rate equal to the highest of (a) the Federal Funds Rate (which, if negative, shall be deemed to be 0%) plus 1/2 of 1%, (b) the Prime Lending Rate, as defined, and (c) Adjusted Eurocurrency Rate plus 1%. Eurocurrency Rate equals an interest rate per annum equal to the Adjusted Eurocurrency Rate (Eurocurrency Rate multiplied by the Statutory Reserve) for such interest Period, provided that the Adjusted Eurocurrency Rate shall not be less than 1% per annum. Effective July 31, 2020, the Applicable Rate means a percentage per annum equal to 9.0% for Eurocurrency Rate Loans and 8.0% per annum for Base Rate Loans. At the Company's option, up to 100% of the interest due may be paid in kind subject to an increase of 0.5% of the Applicable Rate until July 31, 2021. Subsequent to July 31, 2021, up to 50% of the interest due may be paid in kind subject to an increase of 0.5% of the Applicable Rate. The weighted average borrowing rate for the period from July 31, 2020 through December 31, 2020 was 10.00%. During the period from July 31, 2020 through December 31, 2020, the Company recorded \$5,308,000 of paid in kind interest expense.

On December 18, 2020, in connection with the sale of a facility within the Metal Coating segment, and in compliance with the mandatory repayment provisions of the Credit Agreement, the Company repaid \$8,762,000 of the 2020 Term Loan. The repayment is first applied to the required quarterly amortization payments. Therefore, the Company is not required to make quarterly amortization payments on the 2020 First Lien Term Loan through December 31, 2024. Commencing with the fiscal quarter ended March 31, 2025, the 2020 First



**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Lien Term Loan amortizes in equal quarterly installments in an amount equal to 1.00% per annum of the original principal amount, with the remaining balance due at final maturity.

Sequa may voluntarily prepay loans or reduce commitments under the First Lien Credit Agreement, in whole or in part, subject to minimum amounts, with prior notice but without premium or penalty, except with respect to the 2020 First Lien Term Loan, where certain prepayments may be subject to prepayment premiums, as defined in the Amended First Lien Credit Agreement.

**Revolving Credit Facility**

The RCF is available through August 28, 2023, with the exception of \$13,500,000 which matures on October 15, 2022. Borrowings under the RCF bear interest at either Base Rate plus Applicable Rate or Eurocurrency Rate plus Applicable Rate. The Base Rate means a fluctuating rate equal to the highest of (a) the Federal Funds Rate (which, if negative, shall be deemed to be 0%) plus 1/2 of 1%, (b) the Prime Lending Rate, as defined, and (c) Adjusted Eurocurrency Rate plus 1%. Eurocurrency Rate equals an interest rate per annum equal to the Adjusted Eurocurrency Rate (Eurocurrency Rate multiplied by the Statutory Reserve) for such interest Period. The Applicable Rate means a percentage per annum equal to 5.75% per annum for Eurocurrency Rate Loans and 4.75% per annum for Base Rate Loans.

Outstanding borrowings and letters of credit may not exceed the total commitment of \$125,550,000. At December 31, 2020, total outstanding letters of credit were \$14,248,000 and there were no amounts outstanding under the RCF.

Interest on borrowings under the First Lien Credit Agreement is payable in arrears on a quarterly basis, or earlier in accordance with the credit agreement.

Sequa is also subject to operating restrictions, which include amounts to be expended on mergers and acquisitions, investments and the incurrence of additional indebtedness, guarantees and liens.

The Company is subject to mandatory prepayment under certain conditions, including but not limited to excess cash on hand, as defined in the credit agreement, and the sale of certain assets. As part of the Refinancing Transaction in 2020, the Company received relief on its financial covenants under the credit agreement during the period from July 31, 2020 through June 30, 2022 (the "Financial Covenant Relief Period"), unless terminated earlier by the Company. As of the end of each fiscal quarter, if total borrowings (including letters of credit in excess of \$40,000,000) under the RCF exceeds 35% of the aggregate amount of all Revolving Credit Commitments in effect as of such date, Consolidated First Lien Net Leverage Ratio may not exceed certain amounts as follows:

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarter	Maximum Consolidated First Lien Net Leverage Ratio
Through and including the fiscal quarter ended June 30, 2021	No financial covenant testing (or, if the Borrower has terminated the Financial Covenant Relief Period prior to the last day of the applicable fiscal quarter, 5.75:1.00)
Fiscal quarter ended September 30, 2021	8.25:1.00 (or, if the Borrower has terminated the Financial Covenant Relief Period prior to the last day of such fiscal quarter, 5.75:1.00)
Fiscal quarter ended December 31, 2021	7.25:1.00 (or, if the Borrower has terminated the Financial Covenant Relief Period prior to the last day of such fiscal quarter, 5.75:1.00)
Fiscal quarter ended March 31, 2022	6.50:1.00 (or, if the Borrower has terminated the Financial Covenant Relief Period prior to the last day of such fiscal quarter, 5.75:1.00)
Fiscal quarter ended June 30, 2022 and each fiscal quarter thereafter	5.75:1.00

**Second Lien Credit Agreement**

The Second Lien Credit Agreement consists of the Second Lien Term Loan of \$349,544,000. The Second Lien Credit Agreement matures on April 28, 2024. Borrowings under the Second Lien Credit Agreement bear interest at either Base Rate plus Applicable Rate or Eurocurrency Rate plus Applicable Rate. The Base Rate means a fluctuating rate equal to the highest of (a) the Federal Funds Rate (which, if negative, shall be deemed to be 0%) plus 1/2 of 1%, (b) the Prime Lending Rate, as defined, and (c) Adjusted Eurocurrency Rate plus 1%. Eurocurrency Rate equals an interest rate per annum equal to the Adjusted Eurocurrency Rate (Eurocurrency Rate multiplied by the Statutory Reserve) for such interest Period; provided that the Adjusted Eurocurrency Rate shall not be less than 1% per annum. The Applicable Rate means a percentage per annum equal to 10.75% per annum for Eurocurrency Rate Loans and 9.75% per annum for Base Rate Loans. At the Company's option, up to 6.75% per annum of the interest due may be paid in kind. The weighted average borrowing rate for the year ended December 31, 2020 was 11.75%. Interest on the Second Lien Credit Agreement is paid quarterly. During the period from July 31, 2020 through December 31, 2020, the company recorded \$5,964,000 of paid in kind interest expense.

All obligations under the First Lien Credit Agreement and Second Lien Credit Agreement are guaranteed by Sequa, and the guarantees of those obligations are secured, subject to certain exceptions, by substantially all of Sequa's assets and the assets of the subsidiary guarantors, including a first priority security interest in inventory, accounts receivable, cash, securities, general intangibles, equipment, intellectual property and investment property.

**Trac Invoice Financing Facility**

The Trac invoice financing facility is an on demand draw down facility on certain outstanding receivables due to Trac. Available borrowings are based on 75% of the invoice value aged less than 70 days from the end of any month end date. The prepayment facility shall be limited to a maximum amount of £3,000,000 at any one time.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Borrowings bear interest at 2.50% per annum. Customer concentrations are limited to 70% of funds in use. Total outstanding borrowings were £1,019,000 (\$1,393,000) and £2,323,000 (\$3,080,000) at December 31, 2020 and 2019, respectively.

**Lease Financing Obligation**

In 2018, the Company, as seller, entered into Sale Agreements with AG Net Lease Acquisition Corporation (the “Lessor”). The transactions provided for the sale of five industrial facilities (the “Properties”) within the Aerospace segment located in the U.S. The total selling price of the Properties was \$53,750,000 under the fully executed Sale Agreements. The initial Sale Agreement, executed on August 9, 2018, provided for the sale of four industrial facilities. On December 12, 2018, the Sale Agreement was revised to include the sale of an additional industrial facility.

Concurrently with the execution of the initial Sale Agreement, the Company and the Lessor entered into a lease agreement (the “Lease”) pursuant to which the initial term of the Lease is 20 years (from 2018 through 2038). With the execution of the revised Sale Agreement on December 12, 2018, the Lease term was extended by four months. After the initial Lease term, the Company shall have the right and option with respect to three or more of the properties to extend the lease term for an additional ten years, followed by three additional successive periods of seven years each. The Company will only be able to exercise such options by giving written notice to the Lessor at least 24 months prior to the term expiration. Rent is due quarterly in advance, and the initial rent payment is approximately \$3,688,000 per year, or quarterly payments of approximately \$922,000. The rent shall be adjusted annually by 2%, starting October 1, 2019, and every October 1 thereafter during the Lease term. The Lease is structured as a “triple net” Lease, meaning the Company is responsible for all expenses arising from the use or operation of the Properties, including repairs, maintenance, insurance and taxes.

In accordance with the provisions of FASB ASC Topic 840, “Leases” (“ASC Topic 840”), the transactions were accounted for as sale leasebacks. The \$18,000,000 of gains on the transactions were deferred and are recorded within other noncurrent liabilities and are being amortized on a straight-line basis over the lease term. For the years ended December 31, 2020 and 2019, respectively, \$896,000 and \$887,000 of the deferred gain was amortized and included in Other, Net in the Consolidated Statements of Operations. Also, in accordance with the provisions of ASC Topic 840, the transactions were classified as finance leases within current and long-term debt on the Consolidated Balance Sheets in accordance with FASB ASC Topic 842.

**Existing Indebtedness Held by Carlyle Affiliates**

As of December 31, 2020, and 2019, funds affiliated with Carlyle, a related party, held approximately \$11,131,000 and \$45,376,000, respectively, of Sequa’s indebtedness under the senior secured credit facilities.

**Note 14. Common Stock and Warrants**

On April 28, 2017, Sequa filed its amended and restated articles of incorporation whereby Sequa exchanged all the outstanding common stock and issued 3,300,000 new shares of common stock along with Series A and Series B Warrants to purchase 21,222,222 shares of common stock at an exercise price of \$13.9049 per share and 26,527,778 shares of common stock at an exercise price of \$14.8473 per share, respectively. Total shares authorized are 268,077,620, of which 266,201,989 are classified as common and 1,875,631 shall be classified as preferred stock. In addition, as part of the sale of 125,000 shares of Series A Preferred Stock and 65,000 shares of the Series B-1 Preferred Shares (see Note 15), the Company issued Series C and Series D Warrants to purchase 6,366,667 shares of common stock at an exercise price of \$11.7452 per share and 21,222,222 shares of common

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

stock at an exercise price of \$13.3159 per share, respectively. The Series A, B, C and D warrants had a relative fair value on the date of issuance of \$7,378,000, \$8,306,000, \$2,857,000 and \$7,892,000, respectively. The fair value was calculated using a Black-Scholes option pricing model assuming an underlying stock price of \$3.75 per share, a five-year life, volatility of 45.0%, a risk-free interest rate of 1.81%, and a dividend yield rate of 11.9%. The fair value of the Series A and B Warrants were recorded as a dividend, thereby increasing the Company's accumulated deficit and the fair value of the Series C and D Warrants were recorded as permanent equity as they represent a portion of the cash received for the issuance of the Preferred Stock and Warrants. The discount of the preferred stock is amortized over an estimated life of five years.

**Note 15. Perpetual Convertible Preferred Stock**

On April 28, 2017, Sequa issued 153,463 shares of Series A Preferred Stock in exchange for \$153,463,000 Senior Notes, sold 125,000 shares of Series A Preferred Stock and Series C and D Warrants for \$125,000,000 of cash proceeds, issued 115,659 shares of Series B-1 Preferred Stock in exchange for \$115,659,000 Senior Notes, sold 65,000 shares of Series B-1 Preferred Stock and Series C and D Warrants for \$65,000,000 of cash proceeds, and issued 53,065 shares of Series B-2 Preferred Stock in exchange for \$53,065,000 Senior Notes. The cash received was recorded net of issuance costs of \$6,955,000. The Series A, B-1 and B-2 Preferred Stock all accrue dividends, declared and paid in-kind on a quarterly basis, at 9% per annum for the first 24 months, 12% for the following 24 months, and 15% thereafter. Dividends are calculated on an effective interest method assuming a five-year life. Dividends for the years ended December 31, 2020 and 2019 were \$84,578,000 and \$84,347,000, respectively. The Series A, B-1 and B-2 Preferred Stock have a par value of \$0.01 per share with a liquidation preference of \$1,000 per share and are convertible into 100 shares of common stock at the election of the holder. The Series A, B-1 and B-2 Preferred Stock are perpetual and have no mandatory redemption date. At inception, total fair value of the preferred stock was \$943.43 per share. The discount on preferred shares is amortized on a straight-line basis over an estimated life of five years.

The original holders of Series B-1 and B-2 Preferred Stock have the right to appoint two and one member to the board of directors of Sequa Corporation, subject to maintaining certain thresholds of ownership of the preferred shares (or common shares if converted). In addition, certain actions require Series B Approval Threshold, as defined, and maintain voting rights equal to that of the common shareholders, on an as-converted basis, as well as certain drag-along and tag-along rights, as defined. Should the original holders maintain certain ownership levels, and neither an IPO or Change of Control have occurred by April 28, 2022, then the holders may elect to cause the Company to pursue either an Exit Sale or Exit IPO, as defined.

On July 31, 2020, the Company issued 56,000 shares of new Series C Preferred Stock for net cash proceeds of \$50,129,000. The Series C Preferred Stock accrues dividends, declared and paid in-kind on a quarterly basis, at 20% per annum. Dividends are calculated on an effective interest method assuming a five-year life. Dividends for the period from July 31, 2020 through December 31, 2020 were \$5,349,000.

The Series A, B-1 and B-2 and Series C Preferred Stock have a par value of \$0.01 per share with a liquidation preference of \$1,000 per share and are convertible into 100 shares of common stock at the election of the holder. The Series C Preferred Stock are perpetual and have no mandatory redemption date. The discount on preferred shares is amortized on a straight-line basis over an estimated life of five years.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 16. Income Tax Provision**

The components of loss from continuing operations before income taxes were:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
Domestic	\$ (72,811)	\$ (71,646)	\$ (92,323)
Foreign	(64,802)	8,515	(29,376)
	<u>\$ (137,613)</u>	<u>\$ (63,131)</u>	<u>\$ (121,699)</u>

The income tax provision (benefit) related to continuing operations consisted of:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
United States Federal			
Current	\$ —	\$ —	\$ (112)
Deferred	(1,200)	—	(22,852)
State and local			
Current	1,325	1,003	1,548
Deferred	8	8	8
Foreign			
Current	1,600	5,344	2,977
Deferred	(580)	(7,213)	873
	<u>\$ 1,153</u>	<u>\$ (858)</u>	<u>\$ (17,558)</u>

Total income tax provision (benefit) was allocated as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
Loss from continuing operations	\$ 1,153	\$ (858)	\$ (17,558)
Other comprehensive (loss) gain	(379)	(144)	6,119
	<u>\$ 774</u>	<u>\$ (1,002)</u>	<u>\$ (11,439)</u>

The income tax provision (benefit) related to continuing operations is different from the amount computed by applying the U.S. Federal statutory income tax rate of 21% to loss from continuing operations before income taxes. The reasons for this difference are as follows:

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
Computed income taxes at statutory rate	\$ (28,899)	\$ (13,258)	\$ (25,557)
Amortization of goodwill	9,403	9,400	9,426
Valuation allowance adjustments	19,876	(4,058)	(9,771)
Foreign subsidiaries at different tax rates	(1,021)	1,699	3,057
U.S. tax on foreign earnings	464	3,852	4,076
State and local taxes, net of Federal income tax benefit	1,047	792	1,223
Permanent differences	275	705	90
Other, net	8	10	(102)
	<u>\$ 1,153</u>	<u>\$ (858)</u>	<u>\$ (17,558)</u>

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Reform Act”) was enacted into law. The Tax Reform Act included a reduction in the federal tax rate for corporations from 35% to 21% as of January 1, 2018, a one-time transition tax on the cumulative undistributed earnings of foreign subsidiaries as of December 31, 2017, and a repeal of the corporate alternative minimum tax. Other provisions effective as of January 1, 2018 include the creation of a new U.S. minimum tax on foreign earnings called GILTI and limitations on the deductibility of interest expense.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Reform Act, the Company recorded provisional amounts as of December 31, 2017, in accordance with Staff Accounting Bulletin No. 118 (“SAB 118”). We recorded a provisional one-time non-cash charge of \$52,181,000 in the fourth quarter of 2017 to remeasure the deferred tax assets for the new rate and for other legislative changes, partially offset with a valuation allowance. During 2018, we refined and updated our remeasurement of deferred tax assets and recorded an additional tax benefit of \$16,926,000 related to a decrease in valuation allowances. As of December 31, 2017, we recorded a provisional \$11,013,000 charge related to the transition tax, offset in full with the effect of a decrease in valuation allowance related to the utilization of the NOL carryforward. During 2018, we refined and updated our calculation of the transition tax to \$14,153,000, offset in full with the effect of a decrease in valuation allowance related to the utilization of the NOL carryforward. We did not change our assertion on the determination of which subsidiaries that we consider to be permanently invested and for which we do not expect to repatriate to the U.S. as a result of the Tax Reform Act.

FASB ASC Topic 740, “*Income Taxes*” (“FASB ASC Topic 740”), establishes a recognition threshold and measurement for income tax positions recognized in an enterprise’s financial statements. FASB ASC Topic 740 also prescribes a two-step evaluation process for tax positions. The first step is recognition and the second is measurement. For recognition, an enterprise judgmentally determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more likely than not recognition threshold, it is measured and recognized in the financial statements as the largest amount of tax benefit that is greater than 50% likely of being realized. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Sequa conducts business globally and, as a result, Sequa or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, Sequa is subject to examination by taxing authorities throughout the world, including such major jurisdictions as France, the Netherlands, Thailand, the United Kingdom and the United States.

At December 31, 2020, Sequa's unrecognized tax benefits totaled \$421,000, all of which, if recognized, would affect the effective tax rate. The Company's tax years for 2010 and forward are subject to examination by the tax authorities. At this time, the Company is under audit by various state and non-U.S. taxing authorities. Although the timing of the resolution on audits is highly uncertain, as of December 31, 2020, Sequa does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations within the next twelve months. The Company believes it has made adequate provisions for all significant income tax uncertainties and that after considering the amounts accrued as of December 31, 2020, the conclusion of audits during the next twelve months will not have a material adverse impact on its results of operations, financial position or liquidity.

Interest and penalties related to income tax liabilities are included in income tax expense and were \$8,000 for each of the years ended December 31, 2020, 2019 and 2018. The balance of accrued interest and penalties was approximately \$124,000 and \$116,000 as of December 31, 2020 and 2019, respectively and is included within other noncurrent liabilities in the Consolidated Balance Sheets.

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows (amounts in thousands):

	2020	2019
Unrecognized tax benefits - January 1	\$ 421	\$ 419
Gross increases – tax positions in current period	—	2
Unrecognized tax benefits - December 31	<u>\$ 421</u>	<u>\$ 421</u>

As of December 31, 2020, the Company had approximately \$80,771,000 of undistributed international earnings. We intend to continue to reinvest the undistributed earnings outside the U.S. for the foreseeable future and while the U.S. federal tax impact has been recognized as a result of the Tax Reform Act, no deferred tax liabilities with respect to certain items such as foreign exchange gains or losses, foreign withholding taxes or state taxes have been recognized. It is not practicable for us to determine the amount of unrecognized tax expense on these reinvested international earnings.

The deferred tax provision represents the change in deferred tax assets and liabilities from the beginning of the year to the end of the year resulting from changes in the temporary differences between the financial reporting basis and the tax basis of Sequa's assets and liabilities.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities are as follows:

	<b>December 31, 2020</b>	
	<b>Deferred Tax Assets</b>	<b>Deferred Tax Liabilities</b>
	(Amounts in thousands)	
Accounts receivable allowances	\$ 566	\$ —
Inventory valuation differences	33,458	801
Depreciation	1,688	28,012
Intangible assets including goodwill	—	40,696
Accrued expenses not currently deductible	9,811	—
Pension liability	30,575	—
Tax net operating loss carryforward	141,127	—
Interest expense limitation carryforward	30,371	—
Other tax credit carryforwards	17,871	—
Lease accounting differences	20,197	15,693
All other	31,248	22,323
Subtotal	316,912	107,525
Valuation allowance	(203,722)	—
Total deferred taxes	<u>\$ 113,190</u>	<u>\$ 107,525</u>

	<b>December 31, 2019</b>	
	<b>Deferred Tax Assets</b>	<b>Deferred Tax Liabilities</b>
	(Amounts in thousands)	
Accounts receivable allowances	\$ 481	\$ —
Inventory valuation differences	32,512	843
Depreciation	3,466	36,412
Intangible assets including goodwill	—	52,608
Accrued expenses not currently deductible	8,198	—
Pension liability	28,940	—
Tax net operating loss carryforward	136,603	—
Interest expense limitation carryforward	30,426	—
Other tax credit carryforwards	18,978	—
Lease accounting differences	12,975	8,250
All other	15,362	7,805
Subtotal	287,941	105,918
Valuation allowance	(179,016)	—
Total deferred taxes	<u>\$ 108,925</u>	<u>\$ 105,918</u>



**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The deferred income tax assets and liabilities based on tax jurisdictions are presented on the Consolidated Balance Sheets as of December 31, 2020 and 2019 as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	(Amounts in thousands)	
Noncurrent deferred income tax assets	\$ 9,370	\$ 9,118
Noncurrent deferred income tax liabilities	(3,705)	(6,111)
Net deferred income tax asset	<u>\$ 5,665</u>	<u>\$ 3,007</u>

Sequa has a domestic tax net operating loss carryforward of \$328,687,000 at December 31, 2020 that expires in 2030 through 2039. Sequa also has a domestic carryforward of disallowed business interest of \$133,901,000 at December 31, 2020 that does not expire.

At December 31, 2020 and 2019, Sequa provided valuation allowances of \$203,722,000 and \$179,016,000, respectively. The net change in the total valuation allowance for each of the years ended December 31, 2020 and 2019 was an increase of \$24,706,000 and a decrease of \$12,986,000, respectively. The \$24,706,000 increase in 2020 is primarily comprised of \$15,079,000 and \$6,733,000 of foreign and federal valuation allowances, respectively. The \$12,896,000 decrease in 2019 is primarily comprised of \$6,031,000 and \$5,924,000 of state and foreign valuation allowances, respectively.

The valuation allowances as of December 31, 2020 and 2019 were primarily related to U.S. federal net operating loss carryforwards and interest expense limitation that, in the judgment of management, are not more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible.

The realizability of the Company's deferred tax assets, net of valuation allowances, has been determined pursuant to the provisions of FASB ASC Topic 740 and includes consideration of the scheduled reversal of deferred tax liabilities and the Company's estimation of future taxable income. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Sequa's ability to generate income from future operations is dependent upon general economic conditions, the state of the airline industry and other major markets, competitive pressures on sales and margins, and other factors beyond management's control. There can be no assurance that Sequa will meet its expectations for future income or that available tax strategies can be enacted to allow the Company to realize the deferred tax assets.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 17. Accrued Expenses**

Sequa's accrued expenses consist of the following items:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	(Amounts in thousands)	
Interest (Note 13)	\$ 23,087	\$ 16,216
Unearned income (contract liabilities) (Note 3)	21,521	13,397
Salaries and wages	19,404	53,087
Customer rebates	18,747	16,665
Restructuring (Note 23)	3,684	4,416
Taxes other than income	3,578	3,750
Current portion of environmental liabilities (Note 12)	3,446	4,500
Current portion of casualty insurance liabilities	2,760	2,974
Insurance	2,113	2,285
Royalties	1,962	2,226
Current portion of pension liabilities	731	1,194
Warranty	683	820
Other	30,226	20,415
	<u>\$ 131,942</u>	<u>\$ 141,945</u>

Casualty insurance reserves relate to worker's compensation, product and general liability and automobile insurance coverage for which Sequa is self-insured with respect to a per-claim deductible of \$500,000 to \$2,000,000 depending on the policy year. Casualty insurance reserve requirements are determined through an annual actuarial review of historical losses and claim growth rates performed by a third party. The review projects the estimated ultimate total losses by policy year and recognizes incurred but not reported claims. Casualty insurance reserves are at undiscounted amounts.

Warranty costs relate to the Aerospace segment. Warranty reserves are primarily established on a specific claim basis.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Warranty reserve activity is summarized as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
	(Amounts in thousands)	
Warranty reserves at beginning of period	\$ 820	\$ 1,469
Warranties issued	140	963
Warranty costs incurred	(98)	(1,112)
Changes in liability for pre-existing warranties, including expirations	(179)	(520)
Foreign currency translation adjustments	—	20
Warranty reserves at end of period	<u>\$ 683</u>	<u>\$ 820</u>

Customer rebate agreements are primarily based on sales volume. Most agreements are annual in nature although certain monthly, three-month and six-month agreements exist. Rebate-related charges are accrued monthly over the specific agreement period based on actual and/or forecasted sales volumes. Rebate charges are netted against sales in the Consolidated Statements of Operations.

Other accrued expenses include such items as legal reserves, professional services, customer claims, utilities and commissions. No item in this category is individually greater than 5% of total current liabilities.

**Note 18. Other Noncurrent Liabilities**

Sequa's other noncurrent liabilities consist of the following items:

	December 31, 2020	2019
	(Amounts in thousands)	
Environmental liabilities (Note 12)	\$ 17,657	\$ 16,909
Deferred gains on sale leaseback transactions (Note 13)	16,263	16,833
Casualty insurance liabilities (Note 17)	10,859	9,718
Income tax liabilities (Note 16)	359	351
Other	19,548	17,366
	<u>\$ 64,686</u>	<u>\$ 61,177</u>

**Note 19. Financial Instruments and Fair Value Measurements**

***Credit Risk***

Sequa faces credit risk if the counterparties to the forward foreign exchange contracts and commodity price hedges are unable to perform their obligations. Sequa seeks to minimize this risk by entering into transactions with counterparties that are major financial institutions with high credit ratings. While there can be no assurance, Sequa does not anticipate any material non-performance by any of these counterparties.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Foreign Currency Risk Management***

Sequa utilizes forward foreign exchange contracts and derivatives thereof to reduce exposure to foreign currency fluctuations on certain existing assets and liabilities, firm commitments and anticipated transactions. Sequa does not buy, hold or sell derivative financial instruments for trading or speculative purposes.

At December 31, 2020 and 2019, Sequa had forward foreign exchange contracts and derivatives thereof with notional amounts denominated in U.S. Dollars of \$0 and \$2,000,000, respectively. These forward foreign exchange contracts are not designated for hedge accounting treatment, and, therefore, the change in fair value of these derivatives is recorded as a component of Other, Net in the Consolidated Statements of Operations. The counterparties to these forward foreign exchange contracts are creditworthy multinational financial institutions; therefore, Sequa does not consider the risk of counterparty nonperformance to be material.

**Fair Value of Financial Instruments**

The FASB's accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

The FASB's guidance classifies the inputs used to measure fair value into the following hierarchy:

- *Level 1:* Unadjusted quoted prices in active markets for identical assets and liabilities.
- *Level 2:* Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- *Level 3:* Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

Commodity swap contracts and forward foreign exchange contracts are valued using broker quotations or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within level 2.

**Note 20. Pension**

Sequa sponsors a defined benefit pension plan covering certain salaried and hourly employees. The defined benefit plan provides benefits based primarily on the participants' years of service and compensation. Sequa's pension plan is funded to accumulate sufficient assets to provide for accrued benefits. Sequa also had several unfunded supplemental executive retirement plans for certain key executives. These plans provided for benefits that supplement those provided by Sequa's other retirement plans.

Effective June 30, 2017, the Sequa Supplemental Employee Retirement Plan was terminated. As a result, lump sum distributions of \$32,614,000 were made to participants in 2018, which were funded by the cash proceeds received from corporate owned life insurance policies that were held in trust. Also as a result, a \$10,541,000 settlement charge was recorded in the third quarter of 2018 and is included in selling, general and administrative expenses in the Consolidated Statements of Operations.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Sequa is required to recognize the over funded or underfunded status of its pension plans as an asset or liability in its balance sheet and to recognize changes in that funded status in comprehensive loss in the year in which the changes occur. Sequa measures the funded status of its plan as of December 31 (its fiscal year-end).

Funded Defined Benefit Pension Plan

On October 1, 2018, the Roll Coater, Inc. Pension Plan for Bargaining Associates (the “Roll Coater Plan”) was renamed the Sequa Group Pension Plan and Sequa Corporation replaced Precoat Metals Inc. as the plan sponsor. On that same date, assets in the amount of approximately \$413,000 of the newly renamed Sequa Group Pension Plan were transferred to the Sequa Corporation Master Trust, which holds the plan assets related to the Sequa Pension Plan.

On October 2, 2018, the Sequa Pension Plan was merged into the Sequa Group Pension Plan. Assets and accumulated plan benefits of approximately \$288,000,000 and \$421,000,000, respectively, were transferred from the Sequa Pension Plan to the Sequa Group Pension Plan. The Sequa Group Pension Plan is the remaining plan and the sole participating plan in the Sequa Corporation Master Trust as of October 2, 2018.

In November 2017, Sequa communicated to participants who were accruing benefits in the Sequa Pension Plan that benefit accruals would cease effective December 31, 2017. A curtailment gain was recognized, which was offset against net accumulated losses. There were no prior service costs of which to recognize a pro-rata portion. In addition, on November 21, 2017, Sequa purchased a group annuity contract from Minnesota Life Insurance Company – A Securian Company to transfer assets and liabilities for approximately 3,300 participants in pay status with monthly benefits less than \$350, effective December 31, 2017. The settlement loss associated with this transaction is recorded in the Consolidated Statements of Operations as an increase in cost of sales of \$6,349,000 and an increase in selling, general and administrative of \$22,087,000 in 2017.

The Sequa Pension Plan experienced an actuarial loss of approximately \$35,747,000 during fiscal 2020. The primary reasons for the loss in 2020 are the decrease in the discount rate selected as of the year-end 2020 measurement date (loss of \$34,600,000) and the reflection of updated October 1, 2020 valuation census data (loss of \$4,400,000). These losses were partially offset by the adoption of the MP-2020 mortality improvement scale (gain of \$3,300,000).

The Sequa Pension Plan experienced an actuarial loss of \$36,856,000 during fiscal 2019. The primary reasons for the loss are the decrease in the discount rate selected as of the year-end 2019 measurement date (loss of \$36,100,000) and the reflection of updated October 1, 2019 valuation census data (loss of \$3,600,000). These losses were partially offset by the adoption of the Pri-2012 mortality tables and the MP-2019 mortality improvement scale (gain of \$2,800,000).

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The obligation and funded status of Sequa's domestic funded defined benefit plan was as follows:

**Funded Defined Benefit Pension Plan**

	Year Ended December 31, 2020	Year Ended December 31, 2019
	(Amounts in thousands)	
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of period	\$ 419,227	\$ 390,186
Interest cost	14,115	16,323
Actuarial loss	35,747	36,856
Benefits paid	(25,923)	(24,138)
Benefit obligation at end of period	<u>\$ 443,166</u>	<u>\$ 419,227</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of period	308,217	271,950
Actual return on plan assets	40,052	51,087
Participant contributions	2,418	9,181
Benefits paid	(25,923)	(24,138)
Benefit payment reimbursement	—	137
Fair value of plan assets at end of period	<u>\$ 324,764</u>	<u>\$ 308,217</u>
<b>Funded Status</b>		
Funded status at end of period	<u>(118,402)</u>	<u>(111,010)</u>
<b>Amounts Recognized in the Balance Sheet</b>		
Noncurrent liabilities	(118,402)	(111,010)
Net amount recognized	<u>\$ (118,402)</u>	<u>\$ (111,010)</u>
<b>Amounts Recognized in Accumulated Other Comprehensive Loss Consist of</b>		
Net actuarial loss	\$ 164,061	\$ 157,454
Net amount recognized	<u>\$ 164,061</u>	<u>\$ 157,454</u>

At December 31, 2020 and 2019, the domestic funded defined benefit plan had an accumulated benefit obligation in excess of plan assets as noted in the table below:

	December 31, 2020	December 31, 2019
	(Amounts in thousands)	
Projected benefit obligation	\$ 443,166	\$ 419,227
Accumulated benefit obligation	443,166	419,227
Fair value of plan assets	324,764	308,217

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In October 2020, the Society of Actuaries released an updated MP-2020 improvement scale, which reflected the inclusion of one additional year of US population mortality experience (2018). Consistent with prior years, the new MP-2020 improvement scale projects slightly lower rates of future mortality improvements than the MP-2019 improvement scale. Effective December 31, 2020, Sequa elected to adopt the updated MP-2020 improvement scale for purposes of year-end 2020 financial reporting.

The net periodic pension expense for Sequa's funded and unfunded pension plans included the following components:

**Funded Defined Benefit Pension Plan**

(Amounts in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Interest cost	\$ 14,115	\$ 16,323	\$ 15,267
Expected return on assets	(16,622)	(16,594)	(18,560)
Recognized net loss	5,710	5,819	5,321
Pension expense	3,203	5,548	2,028
Settlement loss	—	—	36
Net periodic pension expense	<u>\$ 3,203</u>	<u>\$ 5,548</u>	<u>\$ 2,064</u>

The decrease in 2020 pension cost is primarily attributable to the decrease in the discount rate which resulted in lower interest costs, and the reflection of updated October 1, 2020 valuation census data.

**Unfunded Pension Plan**

(Amounts in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Interest cost	—	—	594
Recognized net loss	—	—	226
Pension expense	—	—	820
Settlement loss	—	—	10,541
Net periodic pension expense	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,361</u>

The changes recognized in other comprehensive loss for Sequa's funded and unfunded pension plans were as follows:

**Funded Defined Benefit Pension Plan**

(Amounts in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Net actuarial loss	\$ 12,317	\$ 2,226
Recognized actuarial loss	(5,710)	(5,819)
Total	<u>\$ 6,607</u>	<u>\$ (3,593)</u>

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Assumptions. The weighted average assumptions used to determine benefit obligation and net periodic pension expense are as follows:

		<b>Benefit Obligations</b>		
		<b>December 31, 2020</b>	<b>December 31, 2019</b>	
Discount rate		2.72%	3.47%	

		<b>Net Periodic Pension Expense</b>		
		<b>December 31, 2020</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Discount rate		3.47%	4.32%	3.67%
Expected long-term return on plan assets		5.50%	6.25%	6.25%

To determine the discount rate, Sequa has selected a cash flow matching analysis using a bond selection-settlement portfolio approach. A modeling process is used, which matches the present value of the plan's projected benefit payments to the market value of the theoretical settlement bond portfolio. A single equivalent discount rate is determined to align the present value of the required cash flow with the value of the bond portfolio. The resulting discount rate is reflective of both the current interest rate environment and the plan's distinct liability characteristics.

To determine the expected return on plan assets ("EROA"), Sequa considers the allocation of plan assets, the historical performance of total plan assets and economic and other indicators of future performance. In addition, Sequa may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks. The EROA assumption is net of all plan expenses payable from plan assets. Actual plan expenses are factored into the actual asset return for the plans and affect actual experience gain or loss for the year. The EROA assumption was updated at year-end 2019 to reflect updated capital market conditions as of the measurement date in light of decreases in fixed income yields during 2019 and future expectations.

Contributions. Sequa contributed \$2,418,000 to its domestic qualified pension plan in 2020. Projected minimum contributions are projected to be approximately \$15,065,000 in 2021. The increase in projected contributions in 2021 is primarily the result of 2020 contributions deferred until 2021 under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), as passed in March 2020 in response to the COVID-19 global pandemic.

Sequa's minimum pension contributions are determined using a twenty-four-month asset smoothing methodology. This approach is one of the allowed methods of calculating pension contributions under IRS regulations and serves to lessen the effect that dramatic swings in the equity and fixed income markets have on the value of plan assets used in determining levels of funding.

The following estimated future benefit payments for the Sequa Group Pension Plan, which reflects expected future service and amounts expected to be paid in the years indicated:



**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Estimated Future Benefit Payments**

<u>Year</u>	<u>Sequa Group Pension Plan</u>
	(Amounts in thousands)
2021	\$ 26,019
2022	26,390
2023	26,575
2024	26,703
2025	26,748
2026-2030	129,066

Plan Assets. Sequa's investment strategy with respect to its domestic defined benefit pension plan is to maintain a broadly diversified portfolio of various asset classes aimed at capturing market returns commensurate with the volatility of each asset class while maintaining a framework of acceptable risk through an overall allocation strategy.

The assets of Sequa's domestic defined benefit pension plan are held in a master trust at a major financial institution in order to minimize expenses through economies of scale. Assets of the master trust are managed by a number of investment managers including passive/index management. However, investment managers offering expertise in a specific investment strategy manage the majority of the assets. Selection of investment managers and the allocation of assets to those managers are delegated to an independent investment advisor, however decisions are governed by an investment policy statement determined by a committee consisting of senior corporate officers. Investments are allowed in private equity funds that are established by financial institutions to acquire or invest in existing companies.

Sequa's investment strategy with respect to the overall allocation of domestic pension assets and the actual allocation at December 31, 2020 is as follows:

	<u>Target Investment Percentage</u>	<u>December 31, 2020</u>
Equities:		
Global	35%	33.8%
Total equities	35%	33.8%
Fixed income	60%	58.7%
Real estate including REITs	5%	5.8%
Cash and cash equivalents	—	1.7%
		<u>100%</u>

FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*," defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The fair value framework requires the categorization of assets into three levels based upon the assumptions (inputs) used to price the assets. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

- *Level 1:* Unadjusted quoted prices in active markets for identical assets.
- *Level 2:* Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.
- *Level 3:* Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset.

At December 31, 2020 the valuation methodologies used for each asset category measured at fair value were as follows:

*Collective trust funds.* Valued at the asset value per unit as determined by the collective trust as of the valuation date, which approximates fair value. Except for a short-term investment fund, there are no restrictions as to the redemption of these common collective trusts, nor does the Company have any contractual obligations to further invest in any individual common collective trusts.

For the short-term investment fund, in order to control liquidity and avoid realized losses on the sale of securities, requests for cash redemptions were not permitted where participants desired to exit the fund. In making this determination to restrict participants from exiting the fund, the trustee considered the liquidity position of the fund, the anticipated need for liquidity going forward, the current market prices of the securities in the fund and the effect of the redemption on the non-redeeming participants in the fund. The Company has no contractual obligations to further invest in the fund.

*Pooled trust.* The fair values of participating units held in the pooled trust, are based on the net asset values reported by the fund managers as of the financial statement dates and recent transaction prices. There are no restrictions as to the redemption of this pooled trust nor does the Plan have any contractual obligations to further invest in any individual pooled trust.

*Limited partnerships.* Fair value is based on the best information available and is determined by the General Partner of the Partnership by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public or private transactions, valuations for publicly-traded comparable companies and/or other measures and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The methods employed to determine the fair value use either the market, income or cost approaches.

The Company applied the practical expedient for valuing its investment in limited partnerships as permitted under ASU 2009-12, which allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share, or its equivalent, as reported by the general partner. The Company cannot withdraw from the limited partnerships prior to their dissolution.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2020, the fair values of Sequa's pension assets are categorized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(Amounts in thousands)			
Pooled Trust	\$ —	\$ 38,014	\$ —	\$ 38,014
Collective trust funds	—	286,691	—	286,691
	—	324,705	—	324,705
Limited partnerships measured at net asset value				59
Total assets at fair value				<u>\$ 324,764</u>

As of December 31, 2019, the fair values of Sequa's pension assets are categorized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(Amounts in thousands)			
Pooled Trust	\$ —	\$ 30,472	\$ —	\$ 30,472
Collective trust funds	—	277,366	—	277,366
	—	307,838	—	307,838
Limited partnerships measured at net asset value				371
Total assets at fair value				<u>\$ 308,209</u>

Investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The amounts presented in the hierarchy tables for such investments are intended to permit reconciliation of the fair value hierarchy to the investments at fair value line item presented in the statements of net assets available for benefits.

Sequa's domestic non-union employees are eligible to participate in Sequa's 401(k) plans and collectively bargained employees are eligible to participate based on their respective collective bargaining agreements. Expenses recorded for Sequa's company contributions under these plans with respect to continuing operations were \$6,512,000, \$7,822,000 and \$8,202,000 in 2020, 2019 and 2018, respectively.

Sequa Corporation contributes to the Local 475 Multiemployer Defined Benefit Plan under the terms of a collective-bargaining agreement that was entered into on September 18, 2012, which covers all production and maintenance employees employed by the Chromalloy New York division of Chromalloy Gas Turbine Corporation. The current collective-bargaining agreement was extended through September 18, 2021 as a result of a Memorandum of Understanding that was agreed to in October 2018.

The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- If Sequa Corporation chooses to stop participating in the multiemployer plan, Sequa Corporation may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

For the period ending December 31, 2020:

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status			FIP/RP Status Pending/ Implemented	Contributions of Sequa Corporation <sup>1</sup>			Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2020	2019	2018		2020 Calendar Year	2019 Calendar Year	2018 Calendar Year		
Local 475 Pension Plan	13-257-115 1/ 002	Green	Green	Green	No	\$785,000	\$812,219	\$683,444	No	9/18/2021

<sup>1</sup>Contributions payable by Sequa Corporation represent more than 5% of the total contributions to the plan.

**Note 21. Share-Based Payments**

*Equity Incentive Plan of Blue Jay Acquisition Corporation.* The purpose of this equity incentive plan, adopted on December 27, 2007, is to further the growth, development and financial success of Parent and its subsidiaries, to retain and obtain the services of current and future employees, consultants and directors by providing additional incentives and offering them an opportunity to become owners of common stock. The plan authorizes the granting of awards to subsidiary company employees in the form of Stock Options, Equity Appreciation Rights, Restricted Stock, Restricted Stock Units, or pursuant to an offer to purchase shares of common stock. The authorized number of shares available for grants is 647,663.

During 2014 and 2013, Sequa awarded stock options to certain key employees of the Company and its subsidiaries of 24,250 and 5,744, respectively, to purchase shares of Parent at \$100.00 and \$115.90, respectively, with a term of 10 years. During 2017 and 2016, 236,670 and 15,200 of these options were terminated or forfeited, respectively. A portion of the options vest ratably upon meeting annual performance targets over a period of five years and upon a liquidity event (as defined in the stock agreement as the sale of more than 70% of the total number of equity securities of the Company as of December 3, 2007 or the sale of all or substantially all of the assets of the Company) and a portion will vest upon the occurrence of a liquidity event. The portion of the performance options which do not have determined performance targets are not deemed to have a grant date, and therefore no fair value can be assigned to these options. As of December 31, 2018, all issued options were considered to be granted. The vesting of the awards is conditioned upon continued employment with the Company. Certain options are subject to accelerated vesting at the sole discretion of the plan administrator. On April 28, 2017, in connection with the Recapitalization, the remaining options were reduced, and the exercise price was increased to \$306.03 per share. During 2020, the remaining 35,207 of these options were terminated or forfeited.

Sequa uses the Black-Scholes-Merton option pricing model to estimate the fair value of employee stock options. The principal variable assumptions utilized in valuing options and the methodology for estimating such model inputs include a peer group of publicly traded companies to estimate volatility, linear interpolation of United States Treasury spot rates for the risk-free interest rate and average of the estimated vesting period and the contractual term to estimate expected life.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Certain employees participate in the Sequa Corporation Equity Appreciation Rights Plan. The plan authorizes the granting of awards to employees in the form of Equity Appreciation Rights (“EARs”) with respect to certain subsidiaries of Sequa. During 2014 and 2013, Sequa awarded 6,500 and 3,000, EARs, respectively, to certain employees, with base value per EAR of \$100, to participate in a potential sale or liquidation of the subsidiary. A total of 5,000 of these EARs were forfeited in 2020. A portion of the EARs vest ratably upon meeting annual performance targets over a period of five years and upon a liquidity event (as defined in the plan document as the sale of more than 70% of the total number of equity securities of the subsidiary as of December 3, 2007 or the sale of all or substantially all of the assets of the subsidiary) and a portion of the EARs vest only upon a liquidity event. The vesting of 100% of the awards is conditioned upon continued employment with the Company through the date of a liquidity event. Certain EARs are subject to accelerated vesting at the sole discretion of the plan administrator. Effective April 28, 2017, the Company limited the number of EARs available to award to the then outstanding amount along with establishing a maximum possible gross value of the EARs.

During 2015, Sequa established the 2015 Sequa Corporation Equity Appreciation Rights Plan. During 2016 and 2015, Sequa awarded 91,900 and 73,493 EARs to certain employees, with base value between \$0 and \$131.43, to participate in the value creation upon a liquidity event involving Sequa or one of its segments. In 2017, 2016 and 2015, there were 130,943, 3,250 and 3,655 EARs terminated or forfeited, respectively. The EARs become eligible to vest ratably upon meeting annual performance targets over a period of three years and upon a liquidity event (as defined in the plan document as the sale of more than 70% of the total equity securities of the Company or applicable segment. The vesting of 100% of the awards is conditioned upon continued employment with the Company through the date of a liquidity event. Certain EARs are subject to accelerated vesting at the sole discretion of the plan administrator. Effective April 28, 2017, the Company limited the number of EARs available to award to the then outstanding amount along with establishing a maximum possible gross value of the EARs.

During 2017, Sequa established the 2017 Equity Appreciation Rights Plan. The plan allows for each participant to be granted an award of compensation in the form of an EAR in terms of the applicable participants percentage interest in Sequa’s fully diluted equity value. The aggregate Designated Participation Percentage, as defined, may not exceed 8.48%. During 2020 and 2019, Sequa awarded EARs representing .0372% and 1.26%, respectively, of Sequa’s fully diluted equity to certain employees, with base value between \$0 and \$10.00. During 2020 and 2019, 0.4724% and 0.15% of the awarded Participation Percentage was forfeited, respectively. The EARs become eligible to vest upon a liquidity event (as defined in the plan document as the sale of more than 70% of the total equity securities of the Company or the sale of substantially all of the assets of the Company) ratably over time or upon meeting annual performance targets over a period of four years.

Sequa recognized no pre-tax compensation expense related to stock options and EARs granted and outstanding as of December 31, 2020 in the years ended December 31, 2020, 2019 and 2018. Unrecognized compensation expense that will be recognized immediately upon a liquidity event, based upon the EARs granted and outstanding as of December 31, 2020, is approximately \$39,100,000.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Option grant and EAR awards activity is summarized as follows:

	<b>Options Granted</b>	<b>EARs Granted</b>
Granted and outstanding as of December 31, 2018	35,207	85,020
Grants	—	—
Forfeitures and adjustments	—	—
Granted and outstanding as of December 31, 2019	35,207	85,020
Grants	—	—
Forfeitures and adjustments	(35,207)	(5,000)
Granted and outstanding as of December 31, 2020	<u>—</u>	<u>80,020</u>

**Note 22. Accumulated Other Comprehensive Loss**

Comprehensive loss includes net loss and other comprehensive income (loss) items, which are recorded within a separate component of equity in the Consolidated Balance Sheets and are excluded from net loss. Sequa's other comprehensive income (loss) items currently include unamortized pension adjustments and foreign currency translation adjustments.

Accumulated other comprehensive loss consisted of the following:

	<b>Pension and Other Post- Retirement Plans</b>	<b>Foreign Currency Translation</b>	<b>Total</b>
	(Amounts in thousands)		
Beginning balance at January 1, 2020	\$ (137,905)	(41,303)	(179,208)
Other comprehensive (losses) gains before reclassifications, net of tax	(11,646)	(670)	(12,316)
Amounts reclassified from accumulated other comprehensive loss	6,372	—	6,372
Current period other comprehensive gain, net of tax	<u>(5,274)</u>	<u>(670)</u>	<u>(5,944)</u>
Ending balance at December 31, 2020	<u>\$ (143,179)</u>	<u>\$ (41,973)</u>	<u>\$ (185,152)</u>

The following table provides details about reclassifications out of accumulated other comprehensive loss for the year ended December 31, 2020:

	<b>Pension Recognized Actuarial Losses<sup>1</sup></b>
	(Amounts in thousands)
Affected line in the Consolidated Statement of Operations:	
Other income (expense)	\$ 6,372
Total reclassifications for the period	<u>\$ 6,372</u>

<sup>1</sup>Recognized actuarial losses are included in the computation of net periodic pension expense (see Note 20 for additional detail).

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 23. Impairment and Restructuring Charges**

In conjunction with formalized restructuring programs, including a global reduction in force and plant consolidations, Sequa recorded estimated expenses for severance and other restructuring costs in accordance with FASB ASC Topic 420, “*Exit or Disposal Cost Obligations*,” and FASB ASC Topic 712, “*Compensation–Nonretirement Postemployment Benefits*.”

Related restructuring charges in the Consolidated Statements of Operations can be summarized as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
Cost of sales	\$ 4,650	\$ 2,950	\$ 11,208
Cost of sales – non-cash asset impairment charges	—	456	—
Selling, general and administrative	5,109	2,656	6,878
Non-cash asset impairment charges	55,902	—	—
Total	<u>\$ 65,661</u>	<u>\$ 6,062</u>	<u>\$ 18,086</u>
By segment:			
Aerospace	\$ 65,020	\$ 4,843	\$ 17,943
Metal Coating	435	77	143
Corporate	206	1,142	—
Total	<u>\$ 65,661</u>	<u>\$ 6,062</u>	<u>\$ 18,086</u>

In 2020, the Company evaluated goodwill and other indefinite-lived intangible assets related to the Aerospace segment due to the decline in sales as a result of the COVID-19 pandemic. As a result, the Company recorded non-cash asset impairment charges of \$30,229,000, \$9,448,000 and \$17,000 on its customer relationship, trade name and software intangible assets, respectively, primarily related to the Trac OEM Machining business within the Aerospace segment.

In addition, in connection with the decline in sales, pursuant to FASB ASC Topic 360, the Company performed an impairment review of its machinery and equipment resulting in non-cash asset impairment charges of \$16,208,000 in 2020, primarily related to the Trac OEM Machining business within the Aerospace segment. The company also recorded \$4,650,000 to cost of sales for charges incurred related to plant consolidations and headcount reductions and \$5,109,000 to selling, general and administrative primarily related to headcount reductions in 2020.

In 2019, Sequa recorded \$2,950,000 to cost of sales for charges incurred related to plant consolidations and headcount reductions and \$2,656,000 to selling, general and administrative primarily related to headcount reductions. In addition, Sequa recorded impairment charges of \$456,000 related to the write down of inventory to the lower of cost or net realizable value at its Aerospace segment.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In 2018, Sequa recorded \$11,208,000 to cost of sales for charges incurred related to plant consolidations and headcount reductions and \$6,878,000 to selling, general and administrative primarily related to headcount reductions.

Sequa's Consolidated Balance Sheets include accruals relating to restructuring programs of \$3,684,000 and \$4,416,000 at December 31, 2020 and 2019, respectively. Sequa continually evaluates the adequacy of the remaining liabilities under its restructuring initiatives. Although Sequa believes that these estimates accurately reflect the costs of its restructuring plans, actual results may differ, thereby requiring the Company to record additional provisions or reverse a portion of such provisions. Activity affecting the accrual for the periods ended December 31, 2020 and 2019 are summarized as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
	(Amounts in thousands)	
Reserve at beginning of period	\$ 4,416	\$ 5,999
Reductions in force	8,000	1,818
Plant consolidations and relocation	1,759	3,788
Cash payments of involuntary termination benefits	(8,438)	(2,929)
Cash payments relating to plant consolidations	(2,361)	(4,244)
Other activity and translation adjustments	308	(16)
Reserve at end of period	<u>\$ 3,684</u>	<u>\$ 4,416</u>

Sequa expects that cash expenditures related to restructuring activities will total approximately \$3,684,000 over the next year. Additional charges may be incurred in 2021 and future years on these and further actions that the Company may implement.



**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 24. Other, Net**

Other, Net includes the following income (expense) items:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
Letters of credit and commitment fees	\$ (3,755)	\$ (4,283)	\$ (4,571)
Discount expense on factored receivables	(836)	(2,230)	(2,031)
Net gain on sale of fixed assets/investments	896	2,415	3,351
Gain on cash surrender value of corporate-owned life insurance	251	339	55
Fair market valuation of foreign exchange contracts not qualifying for cash flow hedge accounting	(5)	(4)	(297)
Other	2,393	538	(676)
	<u>\$ (1,056)</u>	<u>\$ (3,225)</u>	<u>\$ (4,169)</u>

**Note 25. Leases**

Certain businesses of Sequa utilize leased premises or equipment under noncancellable agreements having initial or remaining terms of more than one year. The majority of the real property leases require Sequa to pay maintenance, insurance and real estate taxes.

The Company's lease arrangements primarily pertain to manufacturing facilities, office buildings, land and equipment. The Company evaluates whether a contractual arrangement that provides it with control over the use of an asset is, or contains, a lease at the inception date. The Company recognizes ROU assets and corresponding lease liabilities as of the lease commencement date based on the present value of the lease payments over the lease term.

The Company includes renewal periods in lease terms only if the Company is reasonably certain that it will exercise the renewal option. Certain leases have renewal options, which are assessed to determine if those options would affect the duration of the lease term.

The Company classifies a lease as operating or finance using the classification criteria set forth in ASC Topic 842. The discount rate used to calculate the present value of the Company's leases is based on the Company's incremental borrowing rate since the leases do not typically provide a readily determinable implicit rate. We estimate our incremental borrowing rate based on information available at lease commencement in order to discount lease payments to present value. A significant portion of our lease payments are fixed, although an immaterial portion of payments are variable in nature. The Company's ROU assets are increased by any prepaid lease payments and initial direct costs and reduced by any lease incentives received at or prior to lease commencement. The Company's leases do not contain any material residual value guarantees or restrictive covenants.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company elected to apply the short-term lease recognition exemption for all leases that qualify and as such, does not recognize assets or liabilities for leases with terms of less than twelve months. The Company elected not to separate lease and non-lease components.

The components of lease cost are as follows:

	Year Ended December 31, 2020
	(Amounts in thousands)
Finance lease cost <sup>1</sup> :	
Amortization of right-of-use assets	\$ 3,103
Interest on lease liabilities	3,920
Operating lease cost <sup>2</sup>	10,620
Variable lease cost	501
Sublease income	(528)
Total lease cost	<u>\$ 17,616</u>

<sup>1</sup>Finance lease costs include costs associated with sale leaseback transactions. See Note 13 for additional information.

<sup>2</sup>Operating lease costs include short-term lease costs, which were immaterial during the period.

Rent expense was \$11,801,000 and \$12,305,000 in 2019 and 2018, respectively. Except for interest on lease liabilities, which is recorded as a part of interest expense, lease costs (including rent expense) are recorded in cost of sales and selling general and administrative expenses in the Consolidated Statement of Operations.

Supplemental cash flow information related to leases is as follows:

	December 31, 2020
	(Amount in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 11,741
Operating cash flows from finance leases	1,489
Financing cash flows from finance leases	4,498

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Supplemental balance sheet information related to leases as of December 31, 2020, is disclosed in the table below:

<b>Leases</b>	<b>Classification</b>	<b>December 31, 2020</b>
		(Amount in thousands)
<b>Assets</b>		
Operating lease ROU assets	Other assets	\$ 37,151
Finance lease ROU assets	Other assets	38,527
Total lease assets		<u>\$ 75,678</u>
<b>Liabilities</b>		
Current:		
Operating leases	Current liabilities	\$ 8,123
Finance leases	Current maturities of long-term debt	3,950
Non-current:		
Operating leases	Other noncurrent liabilities	29,341
Finance leases	Long-term debt	37,053
Total lease liabilities		<u>\$ 78,467</u>

Information related to lease terms and discount rates as of December 31, 2020, is disclosed in the table below:

	<b>December 31, 2020</b>
Weighted average remaining lease term (years)	
Operating leases	5.23
Finance leases	17.4
Weighted average discount rate	
Operating leases	7.15%
Finance leases	9.85%

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The maturity of the Company's lease liabilities as of December 31, 2020, is disclosed in the table below:

	<b>Operating Leases</b>	<b>Finance Leases</b>
	(Amounts in thousands)	
Future maturities:		
2021	\$ 9,622	\$ 5,197
2022	8,751	5,185
2023	7,768	4,876
2024	6,435	4,878
2025	5,243	4,172
Thereafter	5,421	62,469
Total lease payments	43,240	86,777
Less: imputed interest	(5,776)	(45,774)
Present value of lease liabilities	<u>\$ 37,464</u>	<u>\$ 41,003</u>

Prior to the adoption of ASC 842, the Company's future minimum lease payments under non-cancelable operating leases on an undiscounted basis as of December 31, 2019 were \$9,665,000 in fiscal 2020, \$5,668,000 in fiscal 2021, \$4,917,000 in fiscal 2022, \$3,805,000 in fiscal 2023, \$3,278,000 in fiscal 2024 and \$3,215,000 thereafter.

The Company does not have any material leases that have been signed but have yet to commence as of December 31, 2020.

**Note 26. Summary Business Segment Data**

Sequa is a diversified industrial company that produces a broad range of products in three operating segments: Aerospace, Metal Coating and Other Products.

The Aerospace segment consists solely of Sequa's largest operating unit, Chromalloy. Chromalloy repairs and manufactures gas turbine engine components, principally for domestic and international airlines, OEMs and the U.S. military. In addition, the unit manufactures and repairs components for marine and land-based aero-derivative and industrial turbine engines used for power generation. In 2020, Chromalloy's repair and OEM operations derived approximately 64% of sales from the commercial aviation market. Chromalloy's largest commercial customer accounted for \$61,853,000, or 9%, of Chromalloy's sales in 2020 compared to \$90,215,000, or 10%, in 2019.

Chromalloy competes for turbine engine repair business with a number of other companies, including the manufacturers of jet engines, which are OEMs. In certain cases, OEMs have obligations (contractual and otherwise) to approve vendors to perform repair services on their engines and components. Chromalloy has a number of such approvals including licensing agreements that allow it to repair certain components of engines. The loss of a major OEM's approval to repair components for its engines could have an adverse effect on Chromalloy, although management believes it has certain actions available to mitigate this effect.

The Metal Coating segment consists solely of Precoat Metals. This business applies polymer coatings to continuous steel and aluminum coil for the nationwide building products market, the container market and diverse

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

markets for manufactured products. The Metal Coating segment's largest customer accounted for \$60,471,000, or 10%, of segment sales in 2020 and \$52,932,000, or 9%, of segment sales in 2019.

The Other Products segment consists solely of Centor Company ("Centor"). Centor is a real estate holding company through which Sequa records gains or losses on the sale of properties that are extraneous to Sequa's core operations.

Segment information amounts presented are the same measures reported internally to the Chief Operating Decision Maker for purposes of making decisions about allocating resources to the segments and assessing their performance. Operating profit, the measure of profit reported in the segment information, represents income before income taxes, interest, equity in unconsolidated joint ventures and other, net. The expenses and assets attributable to corporate activities are not allocated to the operating segments. Assets of corporate activities include cash and cash equivalents, short-term investments and deferred tax assets. Investments in unconsolidated joint ventures are included in the appropriate segment. All sales represent external sales and inter-segment sales are not material.

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	For the Year Ended December 31,		
	2020	2019	2018
	(Amounts in thousands)		
<b>Aerospace</b>			
Sales	\$ 672,288	\$ 898,105	\$ 808,331
Operating (loss) income	(69,346)	41,653	(9,961)
Goodwill	144,111	172,300	200,424
Total assets	908,083	967,151	948,765
Capital expenditures	25,877	27,269	30,542
Depreciation and amortization	72,448	73,430	74,308
<b>Metal Coating</b>			
Sales	\$ 599,961	\$ 591,472	\$ 599,147
Operating income	111,459	61,437	62,018
Goodwill	80,667	96,801	112,934
Total assets	421,766	451,201	468,070
Capital expenditures	16,605	23,520	14,374
Depreciation and amortization	40,733	40,816	41,430
<b>Other Products</b>			
Operating loss	\$ (2)	\$ (2)	\$ (2)
Total assets	100	100	100
<b>Corporate</b>			
Operating loss	\$ (32,697)	\$ (33,587)	\$ (26,676)
Total corporate assets	131,135	17,971	26,610
Assets of discontinued operations	—	26	26
Liabilities of discontinued operations	1,106	1,259	1,141
Capital expenditures	—	—	391
Depreciation and amortization	327	789	771
<b>Totals</b>			
Sales	\$ 1,272,249	\$ 1,489,577	\$ 1,407,478
Operating income	\$ 9,414	\$ 69,501	\$ 25,379
Goodwill	\$ 224,778	\$ 269,101	\$ 313,358
Total assets of continuing operations	\$ 1,461,084	\$ 1,436,423	\$ 1,443,545
Assets of discontinued operations	\$ —	\$ 26	\$ 26
Liabilities of discontinued operations	\$ 1,106	\$ 1,259	\$ 1,141
Capital expenditures	\$ 42,482	\$ 50,789	\$ 45,307
Depreciation and amortization	\$ 113,508	\$ 115,035	\$ 116,509

In 2020, the Aerospace segment includes non-cash asset impairment charges of \$30,229,000, \$9,448,000 and \$17,000 on its customer relationship, trade name and software intangible assets, respectively, \$16,208,000 of non-cash asset impairment charges on property, plant and equipment to write down machinery and equipment, primarily related to the Trac OEM Machining business within the Aerospace segment (see Note 23) and \$9,118,000 of restructuring charges consisting of severance-related and facility consolidation costs. The Metal Coating segment includes \$435,000 of restructuring related charges. The Corporate segment includes \$206,000 of restructuring related charges. On December 1, 2020, the Company sold the assets of one of its facilities within the Metal Coating segment. A \$43,380,000 gain was recorded on the sale.

In 2019, the Aerospace segment includes \$4,387,000 of restructuring charges consisting of severance-related and facility consolidation costs and non-cash asset impairment charges of \$456,000 related to the write down of

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

inventory to the lower of cost or net realizable value. The Metal Coating segment includes \$77,000 of restructuring related charges. The Corporate segment includes \$1,142,000 of restructuring related charges.

In 2018, the Aerospace segment includes \$17,943,000 of restructuring charges consisting of severance-related and facility consolidation costs. The Metal Coating segment includes \$143,000 of restructuring related charges.

Sales by major product and service are as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
Aerospace:			
Aviation Products and Services	\$ 517,996	\$ 728,686	\$ 661,266
Other	154,292	169,419	147,065
Metal Coating	599,961	591,472	599,147
Total	<u>\$ 1,272,249</u>	<u>\$ 1,489,577</u>	<u>\$ 1,407,478</u>

**Geographic Data**

Sales are attributable to countries based on location of the customer.

	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
	(Amounts in thousands)		
<b>Sales</b>			
United States	\$ 960,592	\$ 1,004,176	\$ 980,330
United Kingdom	56,767	93,788	80,350
Germany	44,083	62,513	34,816
France	29,784	60,745	65,901
Switzerland	22,337	23,233	28,300
Taiwan	20,973	22,771	25,319
Canada	18,192	22,385	18,720
Mexico	13,313	15,419	23,457
China	9,988	9,366	17,026
South Korea	9,936	30,370	36,480
Saudi Arabia	34	17,864	3,783
Other countries	86,250	126,947	92,996
Total	<u>\$ 1,272,249</u>	<u>\$ 1,489,577</u>	<u>\$ 1,407,478</u>

Long-lived assets, which include property, plant and equipment, ROU assets, goodwill and other intangible assets, are as follows:

**SEQUA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	December 31,	
	2020	2019
	(Amounts in thousands)	
<b>Long-lived Assets</b>		
United States	\$ 661,411	\$ 711,055
United Kingdom	45,693	101,086
Other countries	50,292	48,880
Total	<u>\$ 757,396</u>	<u>\$ 861,021</u>

No single commercial customer accounted for more than 10% of consolidated sales in any year. Prime and subcontracts with all U.S. government agencies accounted for approximately 6%, 4% and 8% of sales in 2020, 2019 and 2018, respectively.

**Note 27. Commitments and Contingencies**

Sequa is involved in a number of claims, lawsuits and proceedings (environmental and otherwise) that arise in the ordinary course of business. From time to time, other litigation pending against the Company involves allegations that are not routine and include, in certain cases, compensatory and punitive damage claims.

Sequa's ultimate legal and financial liability in respect to all claims, lawsuits and proceedings referred to above cannot be estimated. However, in the opinion of management, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of these legal proceedings, net of liabilities already accrued in Sequa's Consolidated Balance Sheets, is not expected to have a material adverse effect on Sequa's consolidated financial position, although an unexpected resolution in any reporting period of one or more of these matters could have a material adverse effect on Sequa's results of operations, financial position or liquidity.

Various operating units of Sequa have had customers who have filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code ("Chapter 11"). Sequa monitors the bankruptcy cases of these customers in order to file appropriate claims and take other steps necessary to protect its interests. Once a customer files a petition under Chapter 11, Sequa provides additional allowances for doubtful accounts based on an evaluation of the relevant facts.

At December 31, 2020, Sequa was contingently liable for \$14,248,000 of outstanding letters of credit and \$1,165,000 of surety bonds not reflected in the accompanying Consolidated Balance Sheets. Sequa has also guaranteed 50% of the overdraft facility for its Turbine Surface Technology Limited ("TSTL") joint venture in an amount not to exceed £2,500,000 (approximately \$3,416,000 at December 31, 2020). At December 31, 2020, there were no amounts outstanding related to the TSTL guarantees. Sequa is not currently aware of any existing conditions that would cause risk of loss relative to outstanding letters of credit, surety bonds or guarantees.

**Note 28. Subsequent Events**

Sequa evaluated subsequent events from the date of the balance sheet through April 7, 2021, which represents the date these financial statements are available. There were no events or transactions occurring during this subsequent event reporting period which require recognition or disclosure in the financial statements other than the items below.