

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark one)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2007

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission File Number 1-804
SEQUA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

13-1885030

*(IRS Employer Identification
Number)*

200 Park Avenue
New York, New York

(Address of principal executive offices)

10166

(Zip code)

(212) 986-5500

(Registrant's telephone number, including area code)

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

Yes ☒

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

Yes

No ☒

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

Class	Outstanding at September 30, 2007
Class A Common Stock, no par value	8,153,842
Class B Common Stock, no par value	3,281,840

Sequa Corporation and Subsidiaries
Consolidated Statement of Income
(Amounts in thousands, except per share)
(Unaudited)

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2007	2006	2007	2006
Sales	\$ 1,660,046	\$ 1,636,473	\$ 572,086	\$ 554,377
Costs and expenses				
Cost of sales	1,369,722	1,356,696	472,588	464,168
Selling, general and administrative	187,971	181,310	62,077	57,818
	<u>1,557,693</u>	<u>1,538,006</u>	<u>534,665</u>	<u>521,986</u>
Operating income	102,353	98,467	37,421	32,391
Other income (expense)				
Interest expense	(50,036)	(55,884)	(16,899)	(17,167)
Interest income	2,339	6,668	797	1,404
Equity in income of unconsolidated joint ventures	16,399	15,923	7,857	5,913
Premium on redemption of Senior Notes	-	(4,447)	-	(715)
Other, net	<u>(7,001)</u>	<u>(3,780)</u>	<u>(3,999)</u>	<u>(867)</u>
Income from continuing operations before income taxes	64,054	56,947	25,177	20,959
Income tax provision	<u>(19,796)</u>	<u>(18,237)</u>	<u>(7,064)</u>	<u>(6,264)</u>
Income from continuing operations	44,258	38,710	18,113	14,695
Income from discontinued operations, net of income taxes	<u>-</u>	<u>3,439</u>	<u>-</u>	<u>-</u>
Net income	44,258	42,149	18,113	14,695
Preferred dividends	<u>-</u>	<u>(164)</u>	<u>-</u>	<u>-</u>
Net income available to common stock	<u>\$ 44,258</u>	<u>\$ 41,985</u>	<u>\$ 18,113</u>	<u>\$ 14,695</u>
Basic earnings per share				
Income from continuing operations	\$ 3.91	\$ 3.47	\$ 1.60	\$ 1.31
Income from discontinued operations	<u>-</u>	<u>0.31</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 3.91</u>	<u>\$ 3.78</u>	<u>\$ 1.60</u>	<u>\$ 1.31</u>
Diluted earnings per share				
Income from continuing operations	\$ 3.88	\$ 3.41	\$ 1.59	\$ 1.30
Income from discontinued operations	<u>-</u>	<u>0.30</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 3.88</u>	<u>\$ 3.71</u>	<u>\$ 1.59</u>	<u>\$ 1.30</u>
Dividends declared per share				
Preferred	\$ -	\$ 1.25	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Sequa Corporation and Subsidiaries
Consolidated Balance Sheet

(Amounts in thousands)

(Unaudited)

ASSETS

	September 30, 2007	December 31, 2006
Current assets		
Cash and cash equivalents	\$ 76,049	\$ 173,307
Trade receivables (less allowances of \$6,107 and \$6,971 as of September 30, 2007 and December 31, 2006, respectively)	368,748	331,250
Unbilled receivables	92,611	73,185
Inventories	575,286	527,614
Deferred income taxes	28,394	27,941
Prepaid expenses and other current assets	33,633	24,743
Total current assets	<u>1,174,721</u>	<u>1,158,040</u>
Investments		
Investments and other receivables	146,210	121,013
Assets of discontinued operations	5,842	5,747
	<u>152,052</u>	<u>126,760</u>
Property, plant and equipment, net	<u>484,068</u>	<u>455,541</u>
Other assets		
Goodwill	152,486	149,347
Deferred income taxes	46,192	50,732
Deferred charges and other assets	136,091	91,184
	<u>334,769</u>	<u>291,263</u>
Total assets	<u>\$ 2,145,610</u>	<u>\$ 2,031,604</u>

The accompanying notes are an integral part of the financial statements.

Sequa Corporation and Subsidiaries
Consolidated Balance Sheet

(Amounts in thousands, except share data)
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2007	December 31, 2006
Current liabilities		
Current maturities of long-term debt	\$ 213,357	\$ 24,183
Accounts payable	250,555	227,438
Taxes on income	4,496	19,850
Accrued expenses and other current liabilities	193,476	172,013
Total current liabilities	<u>661,884</u>	<u>443,484</u>
Noncurrent liabilities		
Long-term debt	529,078	740,751
Liabilities of discontinued operations	1,126	1,314
Other noncurrent liabilities	165,333	100,985
Total noncurrent liabilities	<u>695,537</u>	<u>843,050</u>
Shareholders' equity		
Class A common stock—no par value, 50,000,000 shares authorized; 8,173,000 shares issued at September 30, 2007 and 8,080,000 shares issued at December 31, 2006	8,173	8,080
Class B common stock—no par value 15,000,000 shares authorized; 3,679,000 shares issued at September 30, 2007 and 3,681,000 shares issued at December 31, 2006	3,679	3,681
Capital in excess of par value	261,759	259,832
Retained earnings	511,992	490,848
Accumulated other comprehensive income	30,189	10,340
	815,792	772,781
Less: cost of treasury stock	27,603	27,711
Total shareholders' equity	<u>788,189</u>	<u>745,070</u>
Total liabilities and shareholders' equity	<u>\$ 2,145,610</u>	<u>\$ 2,031,604</u>

The accompanying notes are an integral part of the financial statements.

Sequa Corporation and Subsidiaries
Consolidated Statement of Cash Flows

(Amounts in thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Income from continuing operations	\$ 44,258	\$ 38,710
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	66,896	61,784
Provision for losses on receivables	907	415
Premium on redemption of Senior Notes	-	4,447
Stock compensation expense amortization	1,516	1,672
Equity in income of unconsolidated joint ventures, net of earnings distributions received	(8,174)	(5,570)
Other items not providing cash	4,074	(869)
Changes in operating assets and liabilities, net of businesses acquired:		
Receivables	(49,374)	(28,678)
Inventories	(31,468)	(40,887)
Other current assets	(3,467)	(6,613)
Accounts payable and accrued expenses	2,611	(15,519)
Other noncurrent assets	(8,442)	(6,533)
Other noncurrent liabilities	1,678	219
Deferred income taxes	3,608	10,264
Net cash provided by continuing operations	24,623	12,842
Cash (used for) provided by discontinued operations	(284)	1,883
Net cash provided by operating activities	24,339	14,725
Cash flows from investing activities:		
Businesses purchased, net of cash acquired	(15,111)	(1,084)
Purchases of property, plant and equipment	(76,507)	(70,416)
Sales of property, plant and equipment	495	3,526
Equity investments	(11,578)	2,605
Other investing activities	3,982	(2,553)
Cash provided by discontinued operations	-	51,082
Net cash used for investing activities	(98,719)	(16,840)
Cash flows from financing activities:		
(Payments) borrowings under revolving line of credit facilities, net	(4,246)	4,163
Payments of debt	(20,851)	(171,476)
Premium on redemption of Senior Notes	-	(4,447)
Payments of preferred dividends	-	(164)
Restricted cash	-	28,407
Other financing activities	396	3,069
Net cash used for financing activities	(24,701)	(140,448)
Effect of exchange rate changes on cash and cash equivalents	1,823	(884)
Net decrease in cash and cash equivalents	(97,258)	(143,447)
Cash and cash equivalents at beginning of period	173,307	289,218
Cash and cash equivalents at end of period	\$ 76,049	\$ 145,771
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income Taxes	\$ (16,121)	\$ (16,235)
Interest	\$ (56,864)	\$ (64,497)

The accompanying notes are an integral part of the financial statements.

Sequa Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Basis of presentation

The consolidated financial statements of Sequa Corporation ("Sequa") include the accounts of all majority-owned subsidiaries except for a 52.6% owned component manufacturing operation (BELAC LLC "BELAC"). The 52.6% ownership interest in BELAC does not equate to a controlling interest primarily due to a super majority vote requirement (at least 75% approval) on certain key operational decisions. In addition, BELAC has been determined not to be a Variable Interest Entity ("VIE") and therefore its financial statements are not required to be consolidated with those of Sequa under Financial Accounting Standard Board Interpretation No. 46, "*Consolidation of Variable Interest Entities*," as amended. BELAC is accounted for under the equity method as are investments in 20% to 50% owned joint ventures. All material accounts and transactions between the consolidated subsidiaries have been eliminated in consolidation. Certain amounts in the 2006 Consolidated Statement of Income and Consolidated Statement of Cash Flows have been reclassified for comparative purposes.

On July 9, 2007, Sequa announced that it had entered an Agreement and Plan of Merger, dated as of July 8, 2007 (the "Merger Agreement"), with Blue Jay Acquisition Corporation, a Delaware corporation ("Parent"), and Blue Jay Merger Corporation, a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Co"). Parent and Merger Co are entities directly and indirectly owned by Carlyle Partners V, L.P. and its affiliates (collectively, "Carlyle"). Refer to Note 17 for further details regarding this matter.

Sequa Receivables Corporation ("SRC"), a wholly owned special purpose corporation engaged in selling an undivided percentage ownership interest in Sequa's eligible trade receivables (see Note 7 for further discussion), is a 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 SRC's Receivables Purchase Agreement ("RPA").

On March 13, 2006, Sequa issued a Notice of Redemption to the holders of its \$5.00 Cumulative Convertible Preferred Stock (the "Preferred Stock") that stated on April 14, 2006, it would redeem all 351,140 outstanding Preferred Stock for a redemption price of \$100 per preferred share, plus \$1.01 per share in dividends accrued up to the redemption date (the "Redemption Price"). The preferred shareholders had the right to convert any or all of their shares of Preferred Stock into Class A common stock at a 1.322 conversion rate in accordance with the terms of the Certificate of Designation. In addition, Sequa retired the 383,990 shares of the Preferred Stock being held in a treasury account on March 14, 2006. As of the redemption date of April 14, 2006, 17,054 shares of Preferred Stock were not converted by the shareholders. As a result, Sequa redeemed the remaining 17,054 outstanding shares of Preferred Stock at the Redemption Price for approximately \$1,723,000, which is included in Other financing activities in the Consolidated Statement of Cashflows for the nine months ended September 30, 2006.

Certain of Sequa's long-term contracts with customers require an upfront payment of award fees. Depending on the provisions of each contract, these fees are generally capitalized and amortized over the term of the contracts. As of September 30, 2007 and December 31, 2006, deferred charges related to award fees were \$49,145,000 and \$7,312,000, respectively. The deferred balances are reviewed on a quarterly basis to ensure that the amounts are recoverable based on performance of the contracts.

Note 1. Basis of Presentation (cont'd)

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements included herein have been prepared by Sequa, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to fairly present Sequa's results for the interim periods presented. Such adjustments consisted of normal recurring items with the exception of \$2,348,000 of merger related costs included in operating income in the third quarter of 2007 (see Note 17), and a \$3,151,000 environmental charge included in operating income in the first quarter of 2007 for remediation of a site used by a previously divested operation (see Note 11). The Consolidated Balance Sheet as of September 30, 2007 also includes the cumulative effect of adopting FIN 48, which resulted in an increase in other noncurrent liabilities of \$23,113,000 to reserve for certain tax benefits, and is recorded as a reduction to the January 1, 2007 balance of retained earnings (see Note 4).

At the Aerospace segment, operating income in the second quarter of 2006 included a \$3,884,000 provision for customer claims related to repair services provided to certain commercial airline customers; a \$1,204,000 charge to write off pre-petition receivables from a commercial airline customer; and \$2,962,000 of income resulting from the recognition of deferred revenue associated with a terminated contract. Operating income in the first quarter of 2006 included \$1,279,000 of restructuring charges at the ARC Automotive unit of the Automotive segment. Other income (expense) in 2006 included a charge of \$4,447,000 for premiums incurred on the redemption of \$100,360,000 of the 8.875% Senior Notes maturing April 2008 in unsolicited offers, of which \$715,000 was incurred in the third quarter. In 2006, Income from Discontinued Operations included an after-tax gain of \$3,439,000 on the sale of its ownership interests in leveraged leases (see Note 9).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with US generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the SEC, although Sequa believes that the disclosures contained herein are adequate to make the information presented not misleading. It is recommended that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in Sequa's latest Annual Report on Form 10-K.

The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

Note 2. Restructuring Charges

Sequa continues to review its individual operations in order to ensure their competitive positions in their respective markets. There were no significant restructuring activities in the nine-month period of 2007. In October 2006, Sequa announced a voluntary separation program for corporate employees, which was effective December 31, 2006. In January 2006, ARC Automotive announced that certain manufacturing operations would be transferred from the United States to Mexico and China, resulting in a severance related charge of \$1,279,000 included in cost of sales in the Consolidated Statement of Income in the first quarter of 2006. An additional charge of \$191,000 was incurred in the third quarter of 2006 related to incremental layoffs. In addition, Casco Products of the Automotive segment reversed \$500,000 (\$250,000 in the third quarter of 2006 and \$250,000 in the first quarter of 2006) of accruals no longer required as a result of meeting certain criteria under a state development grant, which is included in cost of sales in the Consolidated Statement of Income in the respective periods.

Note 2. Restructuring Charges (cont'd)

Sequa's Consolidated Balance Sheet includes accruals relating to current and prior restructuring programs of \$557,000 at September 30, 2007 and \$2,207,000 at December 31, 2006. Activity affecting the accruals in the nine-month period of 2007 is summarized as follows:

	(Amounts in thousands) (Unaudited)
Balance at December 31, 2006	\$ 2,207
Charges incurred	247
Cash payments for involuntary termination and voluntary early retirement benefits	(1,897)
Balance at September 30, 2007	<u>\$ 557</u>

Note 3. Pension Expense

The net periodic pension (benefit)/cost for the nine and three-month periods of 2007 and 2006 for all significant domestic and foreign funded defined benefit plans include the following components:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2007	2006	2007	2006
	(Amounts in Thousands) (Unaudited)			
Service cost	\$ 6,571	\$ 7,098	\$ 2,032	\$ 2,383
Interest cost	22,735	21,487	7,853	7,203
Expected return on assets	(36,297)	(30,970)	(12,171)	(10,390)
Amortization of prior service cost	(26)	377	(12)	126
Recognized net loss	1,554	2,919	512	983
Net periodic pension (benefit) cost	<u>\$ (5,463)</u>	<u>\$ 911</u>	<u>\$ (1,786)</u>	<u>\$ 305</u>

The weighted average assumptions used to determine the net periodic pension (benefit)/cost were as follows:

	2007	2006
Discount rate	5.87%	5.85%
Expected long-term return on plan assets	8.30%	8.30%
Rate of compensation increase	(a)	(a)

(a) A graded rate of increase in compensation levels was utilized:
3.5% in 2006 and 2007 and 4.0% thereafter

Net periodic pension cost declined in 2007 from the 2006 level as actual returns on plan assets in 2006 exceeded the expected returns, which served to increase the asset base on which 2007 expected returns were calculated.

In the first quarter of 2007, Sequa contributed \$600,000 to its domestic qualified pension plan. Management may elect to accelerate or make additional pension plan contributions based on available liquidity.

Note 4. Income Tax Provision

At the end of each quarter, Sequa estimates the effective tax rate expected to be applicable for the full fiscal year. The effective tax rates for the nine-month periods of 2007 and 2006 were based upon estimated annual pre-tax income from continuing operations, include the effect of a provision for state income and franchise taxes and reflect the utilization of net operating loss carryforwards by certain foreign entities.

In June 2006, FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*," ("FIN 48") was issued. FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes*." FIN 48 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. Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized or, continue to be recognized, upon adoption.

Sequa adopted the provisions of FIN 48 on January 1, 2007. As a result of adoption, Sequa recognized a charge of \$23,113,000 to the January 1, 2007 retained earnings balance. As of the adoption date, Sequa's unrecognized tax benefits totaled \$42,575,000, all of which, if recognized, would affect the effective tax rate. Consistent with the provisions of FIN 48, Sequa reclassified \$13,889,000 of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date.

Interest and penalties related to income tax liabilities are included in income tax expense. As of the adoption date, the balance of accrued interest and penalties was approximately \$2,220,000.

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 China, France, Germany, Italy, the Netherlands, Sweden, Thailand, the United Kingdom and the United States. Sequa is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2000.

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.

Note 5. Comprehensive Income (Loss)

Comprehensive income (loss) includes net income and other comprehensive income (loss) items, which are recorded within a separate component of equity in the balance sheet and are excluded from net income. Sequa's other comprehensive income (loss) items generally include foreign currency translation adjustments, unamortized pension adjustments, and unrealized gains and losses on effective cash flow hedges.

Note 5. Comprehensive Income (Loss) (cont'd)

Comprehensive income for the nine and three months ended September 30, 2007 and 2006 is as follows:

	<u>For the Nine Months Ended September 30,</u>		<u>For the Three Months Ended September 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(Amounts in Thousands) (Unaudited)			
Net income	\$ 44,258	\$ 42,149	\$ 18,113	\$ 14,695
Other comprehensive income (loss) items:				
Foreign currency translation adjustments	19,003	12,830	11,016	(722)
Unrealized loss on cash flow hedges	(296)	(360)	-	(358)
Tax benefit on unrealized loss on cash flow hedges	91	63	-	62
Pension amortization	1,529	-	502	-
Tax provision on pension amortization	(478)	-	(156)	-
Comprehensive income	<u>\$ 64,107</u>	<u>\$ 54,682</u>	<u>\$ 29,475</u>	<u>\$ 13,677</u>

Note 6. Earnings Per Share

Basic earnings per share ("EPS") for each of the periods have been computed by dividing the net earnings, after deducting dividends on the Preferred Stock, by the weighted average number of common shares outstanding during the period.

Diluted EPS reflects the potential dilution that would have occurred if each share of the Preferred Stock outstanding was converted at the stated rate into 1.322 shares of Class A common stock; any outstanding in-the-money options to purchase shares of Class A common stock were exercised; and any unvested restricted stock grants were vested ("share-based payments").

Note 6. Earnings Per Share (cont'd)

The computation of basic and diluted earnings per share is as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2007	2006	2007	2006
	(Amounts in Thousands, except per share data) (Unaudited)			
Income from continuing operations	\$ 44,258	\$ 38,710	\$ 18,113	\$ 14,695
Less: Preferred dividends	-	(164)	-	-
Income from continuing operations available to common stock -- basic	44,258	38,546	18,113	14,695
Income from discontinued operations, net of income taxes	-	3,439	-	-
Net income available to common stock -- basic	44,258	41,985	18,113	14,695
Convertible preferred stock dividend requirement	-	164	-	-
Net income available to common stock -- diluted	<u>\$ 44,258</u>	<u>\$ 42,149</u>	<u>\$ 18,113</u>	<u>\$ 14,695</u>
Weighted average number of common shares outstanding -- basic	11,330	11,099	11,338	11,248
Conversion of convertible preferred stock	-	129	-	-
Dilutive effect of exercise of share-based payments	<u>89</u>	<u>133</u>	<u>81</u>	<u>92</u>
Weighted average number of common shares outstanding -- diluted	<u>11,419</u>	<u>11,361</u>	<u>11,419</u>	<u>11,340</u>
Basic earnings per share				
Income from continuing operations	\$ 3.91	\$ 3.47	\$ 1.60	\$ 1.31
Income from discontinued operations	-	0.31	-	-
Net income	<u>\$ 3.91</u>	<u>\$ 3.78</u>	<u>\$ 1.60</u>	<u>\$ 1.31</u>
Diluted earnings per share				
Income from continuing operations	\$ 3.88	\$ 3.41	\$ 1.59	\$ 1.30
Income from discontinued operations	-	0.30	-	-
Net income	<u>\$ 3.88</u>	<u>\$ 3.71</u>	<u>\$ 1.59</u>	<u>\$ 1.30</u>

Note 7. Trade Receivables, Net and Unbilled Receivables

SRC, a special purpose corporation wholly owned by Sequa, has a RPA that extends through May 8, 2009, as amended on October 4, 2006. Under the RPA, SRC may sell an undivided percentage ownership interest up to a maximum participation of \$75,000,000 in Sequa's eligible trade receivables through a bank-administered multi-seller commercial paper conduit. Sequa's availability under the RPA as of September 30, 2007 is approximately

Note 7. Trade Receivables, Net and Unbilled Receivables (cont'd)

\$75,000,000. A back-up liquidity line provided by the bank is annually renewable at the bank's option and contains a net worth covenant applicable to Sequa. The sale of receivables through the bank-administered conduit is funded through the sale of A1/P1-rated commercial paper. SRC pays a facility fee of 0.55% per annum plus 0.40% per annum above the commercial paper rate based on usage. SRC's assets will be available to satisfy its obligations to its creditors, which have a security interest in SRC's assets, prior to distribution to Sequa. In accordance with SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125*," transactions under the RPA qualify as a sale of receivables. At September 30, 2007 and December 31, 2006, no trade receivables were sold under the RPA. However, amounts were sold and settled in full during the nine-month period of 2007 resulting in nominal discount expense recorded in Other, net in the Consolidated Statement of Income.

Unbilled receivables primarily relate to the Aerospace segment's materials-by-the-hour and power-by-the-hour contracts. As of September 30, 2007 and December 31, 2006, unbilled revenues recorded as an asset in relation to these contracts were \$85,492,000 and \$66,967,000, respectively. The unbilled asset balance represents the cumulative difference between revenue recognized for delivered items and the amounts billed under the hourly billing arrangements in the contracts based on flight hours less any amounts of revenue that are deferred because they are not contractually recoverable. The unbilled balance is reviewed on a quarterly basis to ensure that the amounts are recoverable based on performance under the contract.

Note 8. Inventories

The inventory amounts at September 30, 2007 and December 31, 2006 were as follows:

	September 30, 2007	December 31, 2006
	(Amounts in thousands) (Unaudited)	
Finished goods	\$ 270,978	\$ 250,881
Work in process	150,317	140,477
Raw materials	164,988	149,995
Customer deposits	(10,997)	(13,739)
	<u>\$ 575,286</u>	<u>\$ 527,614</u>

Note 9. Discontinued Operations

During 1991, Sequa adopted a formal plan to divest the investment portfolio of its leasing subsidiary, Sequa Capital Corporation ("Sequa Capital"), and to classify it as a discontinued operation. On March 27, 2006, Sequa Capital sold its ownership interests in two container ship leveraged leases for \$30,833,000 of net cash proceeds and recognized an after-tax gain on the sale of approximately \$4,649,000 (pre-tax gain of \$7,431,000) in discontinued operations. In the second quarter of 2006, Sequa recognized in discontinued operations an after-tax charge of \$1,210,000 (pre-tax charge of \$3,120,000) to record the remaining investment in leveraged leases at fair value. The remaining investment in leveraged leases was sold in the third quarter of 2006 for net cash proceeds of \$16,159,000.

The remaining assets and liabilities of discontinued operations separately presented in the Consolidated Balance Sheet primarily relate to an investment in a dissolved reinsurance syndicate, which has insurance policies in runoff since 1987.

Note 10. Accrued Warranty Costs

Warranty costs primarily relate to the Industrial Machinery segment. This unit sells equipment that is substantial in size, complexity, workload requirements and cost. Warranties are generally issued for 12 to 18 months from the date of installation. Warranty reserves are primarily established using a percentage of sales based on past loss experience. Warranty activity is summarized as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2007	2006	2007	2006
	(Amounts in Thousands) (Unaudited)			
Warranty reserves, beginning of period	\$ 12,951	\$ 10,369	\$ 11,669	\$ 11,723
Warranties issued	6,520	6,861	2,703	2,354
Warranty costs incurred	(5,768)	(5,141)	(1,640)	(1,557)
Changes in liability for pre-existing warranties, including expirations	(1,110)	(3)	-	(1)
Foreign currency translation adjustments	521	374	382	(59)
Warranty reserves, end of period	<u>\$ 13,114</u>	<u>\$ 12,460</u>	<u>\$ 13,114</u>	<u>\$ 12,460</u>

Note 11. Environmental Matters

Sequa's environmental department, under senior management's direction, manages all activities related to Sequa's involvement in environmental clean-up. This department establishes the projected range of expenditures for individual sites with respect to which Sequa may be considered a potentially responsible party under applicable federal or state laws. These 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.

It is Sequa's policy to accrue 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. In the first quarter of 2007, Sequa recorded an additional \$3,151,000 charge with respect to environmental cleanup matters associated with a site in Gainesville, Virginia previously used for manufacturing by the divested ARC propulsion business. At September 30, 2007, the potential exposure for all remediation costs is estimated to range from \$11,600,000 to \$15,100,000, and Sequa's Consolidated Balance Sheet includes accruals for remediation costs of \$13,488,000. These accruals are at undiscounted amounts and are included in accrued expenses and other noncurrent liabilities. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures.

With respect to all known environmental liabilities, remediation costs for continuing operations are estimated to be in the range of \$5,800,000 to \$7,700,000 for the next twelve months. In the nine-month period of 2007, actual remediation expenditures were \$3,623,000.

Note 12. Indebtedness

Long-term debt is as follows:

	September 30, 2007	December 31, 2006
	(Amounts in thousands)	
	(Unaudited)	
Senior Unsecured Notes, at 9%, due 2009	\$ 498,000	\$ 498,000
Senior Unsecured Notes, at 8 7/8%, due April 2008	199,140	199,140
HSBC term loan facility, due 2010	42,210	60,911
Net discount on Senior Unsecured Notes	(652)	(911)
Line of Credit facilities	3,737	7,794
	742,435	764,934
Less current maturities	(213,357)	(24,183)
	<u>\$ 529,078</u>	<u>\$ 740,751</u>

On October 18, 2007, Sequa notified The Bank of New York, as successor trustee under the Indenture dated July 29, 1999, that Sequa had elected to exercise its option to conditionally redeem (the "Redemption") all of its outstanding 8 7/8% Senior Unsecured Notes due 2008 and 9% Senior Unsecured Notes due 2009 (collectively the "Notes"). The redemption price will be the greater of (a) 100% of the outstanding principal amount thereof and (b) the sum of the present values of the remaining scheduled payments of interest and principal discounted to the date of the redemption on a semi-annual basis at the treasury rate in effect on the second business day prior to the redemption date plus 50 basis points. Holders of the redeemed Notes will also receive accrued and unpaid interest thereon up to but not including the redemption date. The anticipated redemption date is November 21, 2007, and in no event will the redemption date be later than December 21, 2007. The Redemption is conditional on the consummation of the Merger. For further details of the Merger, refer to Note 17.

On June 20, 2007, Sequa and certain foreign units in the Specialty Chemicals and Aerospace segments, each of which are wholly owned, indirect subsidiaries of Sequa, entered into an Amendment and Restatement Agreement Relating to the Facilities Agreement dated December 21, 2005 (the "Amended Facilities Agreement") with HSBC Bank plc. The Amended Facilities Agreement reduces the total amount of available funds for borrowing from \$185,000,000 (comprised of a \$100,000,000 multicurrency term loan, which had been reduced to \$43,985,000 as a result of repayments, a \$35,000,000 revolving credit facility, and a \$50,000,000 letter of credit facility) to \$93,600,000. The new arrangement consists of a \$48,600,000 variable rate multicurrency term loan and a \$45,000,000 letter of credit facility and appoints HSBC Bank plc as the arranger, original fronting bank, agent, security agent, and original lender. The multicurrency term loan requires minimum quarterly principal repayments of \$2,634,000 and continues to have a five year term expiring in December 2010. Borrowings under the Amended Facilities Agreement bear interest at the London Interbank Offered Rate (LIBOR) plus an incremental margin ranging from 1.25% to 1.75% based on certain financial covenants. The average interest rate for borrowings under the Amended Facilities Agreement was approximately 6.7% for the nine months ended September 30, 2007.

The Senior Unsecured Notes at 8 7/8% mature in April 2008 and, accordingly, the aggregate principal amount of \$199,140,000 is classified on the balance sheet at September 30, 2007, in current maturities of long-term debt.

On August 27, 2007, Sequa entered into a Loan Agreement with Bank of America, N.A under which Bank of America agreed to provide a \$25,000,000 revolving line of credit to Sequa to be used for general working capital purposes. Interest on the line of credit is payable at an annual rate of LIBOR plus 75 basis points and will adjust periodically. The line of credit will terminate upon the earlier of August 26, 2008 or a Change of Control (as defined). As of September 30, 2007, no amounts were outstanding under the line of credit facility.

Note 13. Derivatives and Financial Instruments

Derivatives and financial instruments are utilized to manage foreign exchange and natural gas price risks. Sequa has established a control environment which assigns senior executives and, in certain instances, operational management responsibility for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Sequa does not buy, hold or sell derivative financial instruments for trading purposes.

Gains and losses on short-term forward foreign exchange contracts and derivatives thereof, used by Sequa to manage its exposure to exchange rate fluctuations on certain recognized assets and liabilities denominated in a currency other than the functional currency, are recorded as offsets to the losses and gains reported in earnings upon remeasurement of such assets or liabilities into the functional currency. Gains and losses on short-term forward foreign exchange contracts used to hedge the fair value of certain firm sales commitments with third parties are recognized in earnings, as are losses and gains on the related firm commitment.

Forward foreign exchange contracts and derivatives thereof are used to hedge the cash flows of certain forecasted sales and intercompany firm sales commitments. These contracts are primarily short-term in nature with the maximum hedge period not exceeding two years. Gains and losses on these contracts, representing the effective portion of the hedging activity, are reported in Accumulated Other Comprehensive Income. These deferred gains and losses are recognized in operating income in the period in which the sale is recognized. Gains and losses resulting from the ineffective portion of the hedging activity are included in the Consolidated Statement of Income. Other, net in the Consolidated Statement of Income includes \$120,000 of expense and \$168,000 of income in the nine-month periods of 2007 and 2006, respectively; and \$54,000 and \$42,000 of expense in the three-month periods ended September 30, 2007 and 2006, respectively; related to the fair market valuation of forward foreign exchange contracts and derivatives thereof that did not qualify for cash flow hedge accounting. At September 30, 2007, there were no forward foreign exchange contracts and derivatives thereof that were effective cash flow hedges and which could be included in Accumulated Other Comprehensive Income.

Gains and losses on natural gas swaps that are highly effective in hedging the cash flow variability of certain anticipated purchases are deferred and included as a component of Accumulated Other Comprehensive Income until the purchase is consummated and the deferred gains and losses are recognized in operating income. Gains and losses on the fair market value of natural gas swaps that do not qualify for hedge accounting are reported in earnings as a component of Other, net.

At September 30, 2007 and December 31, 2006, Sequa had forward foreign exchange contracts and derivatives thereof with notional amounts primarily denominated in Euros: 43,015,000 and 10,285,000, respectively; in US Dollars: 74,097,000 and 31,320,000, respectively; in Swedish Krona: zero and 30,643,000, respectively; and in British Pounds: 1,002,000 and zero, respectively. At September 30, 2007, Sequa had no natural gas swaps outstanding.

Aggregated net foreign exchange gains/losses included in net income for the nine months ended September 30, 2007 and 2006 were net losses of \$38,000 and net gains of \$891,000, respectively; and \$474,000 of net losses and \$250,000 of net gains in the three-month periods ended September 30, 2007 and 2006, respectively.

Note 14. Share-Based Payments

At September 30, 2007, Sequa had five stock-based compensation plans effective as follows: the 1998 Key Employees Stock Option Plan, the 1998 Directors' Stock Compensation Plan (as amended as of January 1, 1999), the Six Sigma Restricted Stock Plan (which was amended and restated effective October 20, 2006), the

Note 14. Share-Based Payments (cont'd)

2003 Directors' Stock Award Plan and the 2007 Long-Term Stock Incentive Plan (collectively the "compensation plans").

1998 Key Employees Stock Option Plan. This incentive and nonqualified stock option plan, which was approved by security holders, provided for the granting of options on Sequa's Class A common stock to key employees. The option price per share could not be less than the fair market value of the Class A common stock on the date the option was granted and the maximum term of an option could not exceed ten years. Options primarily vested in three equal annual installments, commencing on the first anniversary of the grant date. Effective May 3, 2007, no further grants will be made under this plan. See the 2007 Long-Term Stock Incentive Plan for further information.

The following table summarizes the activity related to employee stock options for the nine months ended September 30, 2007:

	<u>Options</u>	<u>Weighted Average Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2006	109,913	\$ 42.38	-
Granted	-	\$ -	-
Expired or Cancelled	(100)	\$ 41.70	-
Exercised	(9,943)	\$ 41.70	\$ 853,000
Outstanding at September 30, 2007	<u>99,870</u>	\$ 42.45	-
Exercisable at			
December 31, 2006	107,580	\$ 42.12	-
September 30, 2007	98,704	\$ 42.30	-

Options exercisable at September 30, 2007 range in price from \$41.70 to \$54.41 per Class A common share. The weighted average remaining contractual terms for the 2005 stock option grant and the 2003 stock option grant are 2.58 years and 1.0 year, respectively, for both options outstanding and exercisable at September 30, 2007.

1998 Directors' Stock Compensation Plan (as amended as of January 1, 1999). The purpose of this plan, which was not required to be approved by stockholders, is to encourage members of the Board of Directors of Sequa, who are not employed by Sequa or any of its subsidiaries or affiliates, to acquire a proprietary interest or to increase an existing interest in Sequa through the ownership of Class A common stock. The plan enables eligible Directors who participate to defer receipt of their directors' compensation for specified periods of time. Prior to December 31 of every calendar year during their term of office, an eligible Director may elect to participate in the plan by directing that all (but not part) of the compensation to be paid in cash during the next immediate twelve months for services as a member of Sequa's Board of Directors be paid in shares of Class A common stock. The stock is valued at the last sales price on the last trading day prior to December 31. Each annual election has a three-year restriction on the transferability of that year's stock which may be extended at the election of the Director for one additional two- or three-year period. During the restricted period, the stock cannot be transferred, pledged, assigned, sold or otherwise disposed of.

Amended and Restated Six Sigma Restricted Stock Plan (as amended and restated effective October 20, 2006). This plan was effective August 28, 2003 and was approved at Sequa's annual meeting of stockholders in 2004. The purpose of the plan is to reward those employees of Sequa who successfully complete certain levels of the Operational Excellence Six Sigma Training Program by awarding them shares of Class A common stock. The stock awarded is restricted for a period of two or three years, depending on the level completed, during which time it cannot be transferred, pledged, assigned, sold or otherwise encumbered. The total number of

Note 14. Share-Based Payments (cont'd)

shares awarded under this plan cannot exceed 50,000 shares. Sequa recognizes compensation expense over the restricted period based on the fair value of the stock on the date of grant.

2003 Directors' Stock Award Plan. This plan was effective December 11, 2003 and was approved at Sequa's annual meeting of stockholders in 2004. At the 2007 annual meeting of stockholders, an amendment to the plan was approved to make an additional 50,000 shares of Class A common stock available for issuance under the 2003 Directors' Stock Award Plan. The purpose of the plan is to encourage and enable members of the Board of Directors of Sequa, who are not employed by Sequa or any of its subsidiaries or affiliates, to acquire a proprietary interest or to increase an existing interest in Sequa through the ownership of Class A common stock. The plan provides for the granting of options as approved by the Board of Directors from time to time. The option price per share may not be less than the fair market value of the Class A common stock on the date the option is granted. The options vest after a period of one year and no options may be exercised after the expiration of ten years from the date of grant. At September 30, 2007, no options were outstanding under the plan. The plan also provides that on January 15 of each calendar year beginning with 2004, eligible Directors will receive a grant of restricted Class A common stock having a market value of \$10,000 (increased to \$30,000, effective January 1, 2007), unless the Board determines in its discretion prior to the grant date that a greater or lesser number of shares of restricted stock, or no shares of restricted stock, will be granted on that date. The stock is restricted for a period of one year during which time it cannot be transferred, pledged, assigned, sold or otherwise encumbered. In addition to the annual grant discussed above, on January 25, 2007 the Board of Directors approved a grant of 5,000 shares of Class A Common Stock of Sequa to each non-management director. The shares will vest in five equal annual installments commencing on the first anniversary of the grant date.

2007 Long-Term Stock Incentive Plan. This plan was effective May 3, 2007 and was approved at Sequa's annual meeting of stockholders in 2007. The purpose of the plan is to advance the interests of Sequa and its stockholders by providing a means to attract, retain, and motivate employees upon whose judgment, initiative and efforts the continued success, growth and development of Sequa is dependent. The plan authorizes the granting of awards to any employee of Sequa, any subsidiary or an affiliate in the form of Stock Options, Share Appreciation Rights, Performance Shares and Performance Units, Restricted Shares, Restricted Share Units, and Other Share-Based Awards. The purchase price of shares subject to any stock options or share appreciation rights must not be less than the fair market value of a share on the date of grant. Fair market value is defined as the closing price of Sequa's Class A Common Stock on the date the grant is made. The maximum term of any stock option or share appreciation right is ten years from the date of grant except in the event of death or disability.

The total number of shares awarded under the plan cannot exceed 735,000 shares of Sequa's Class A Common Stock, which includes those shares available for grant under the 1998 Key Employees Stock Option Plan as of May 3, 2007. The terms and conditions of any option or stock grant will be determined by the Compensation Committee of the Board of Directors. Upon approval of the plan by the stockholders on May 3, 2007, the Board of Directors and the Compensation Committee granted an aggregate of 50,000 shares of restricted stock to an executive officer which will vest in five equal annual installments commencing on January 25, 2008 subject to attaining certain defined performance goals.

Note 14. Share-Based Payments (cont'd)**Equity Compensation Plan Information**

	Number of Securities to be Issued Upon Exercise of Outstanding Options, or Lapse of Restrictions on Restricted Stock (a)	Weighted-Average Exercise Price of Outstanding Options, or Restricted Stock (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	146,847	\$ 28.87	776,625
Equity compensation plans not approved by security holders	<u>9,258</u>	-	*
Total	<u>156,105</u>		

* Shares available for future issuance are not limited in accordance with the plan.

The weighted-average exercise price of a restricted stock grant is considered to be zero because the recipient receives the stock contingent on the lapse of restrictions.

Two of Sequa's equity compensation plans - the Amended and Restated Six Sigma Restricted Stock Plan and the 1998 Directors' Stock Compensation Plan - authorize the award of restricted stock to eligible participants. These plans are not registered under the Securities Act of 1993, as amended (the "Securities Act"), but require compliance with Rule 144 under the Securities Act.

Sequa recognized \$1,516,000 and \$1,980,000 of pre-tax compensation expense related to stock options and restricted stock grants in the Consolidated Statement of Income in the nine months ended September 30, 2007 and 2006, respectively, and \$693,000 and \$663,000 in the three month periods, respectively. The after-tax effect of these charges was to reduce both basic earnings per share and diluted earnings per share from continuing operations by \$0.09 and \$0.15 in the nine months ended September 30, 2007 and 2006, respectively, and \$0.04 and \$0.05 in the three month periods, respectively. The total compensation cost related to non-vested awards not yet recognized as of September 30, 2007 is \$4,262,000.

Cash received from the exercise of stock options for the nine months ended September 30, 2007 and 2006 was \$415,000 and \$6,073,000, respectively, and \$76,000 and \$1,874,000 for the three month periods, respectively. The related tax benefits realized from the exercise of stock options for the nine months ended September 30, 2007 and 2006 was \$197,000 and \$1,671,000, respectively, and \$80,000 and \$552,000 for the three month periods, respectively.

Note 15. Summary Business Segment Data

Sequa's sales and operating income by business segment are as follows:

(Amounts in Thousands)
(Unaudited)

	Sales Year to Date		Operating Income Year to Date	
	2007	2006	2007	2006
Aerospace	\$ 781,801	\$ 780,044	\$ 64,951	\$ 56,885
Automotive	276,066	276,858	13,399	11,089
Metal Coating	217,589	215,860	19,735	28,565
Specialty Chemicals	187,540	157,025	21,355	19,379
Industrial Machinery	188,316	194,794	10,229	11,454
Other Products	8,734	11,892	845	640
Corporate expenses	-	-	(28,161)	(29,545)
Total	<u>\$ 1,660,046</u>	<u>\$ 1,636,473</u>	<u>\$ 102,353</u>	<u>\$ 98,467</u>

(Amounts in Thousands)
(Unaudited)

	Sales Third Quarter		Operating Income Third Quarter	
	2007	2006	2007	2006
Aerospace	\$ 271,684	\$ 271,770	\$ 23,326	\$ 18,531
Automotive	86,548	87,907	4,307	1,639
Metal Coating	77,569	74,616	8,115	10,516
Specialty Chemicals	62,949	53,550	6,537	8,568
Industrial Machinery	71,232	63,987	3,979	3,231
Other Products	2,104	2,547	71	3
Corporate expenses	-	-	(8,914)	(10,097)
Total	<u>\$ 572,086</u>	<u>\$ 554,377</u>	<u>\$ 37,421</u>	<u>\$ 32,391</u>

Sales by major product and service are as follows:

(Amounts in Thousands)
(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Commercial Aviation Repair Services	\$ 573,868	\$ 553,357	\$ 198,325	\$ 204,429
Metal Coating	217,589	215,860	77,569	74,616
Automotive Airbag Inflators	180,162	190,223	55,334	60,677
Specialty Chemicals	187,540	157,025	62,949	53,550
Industrial Graphic Arts Equipment	86,763	90,480	32,419	33,898
Automotive Accessories	95,904	86,635	31,214	27,230
Industrial Emission Controls Equipment	52,093	59,757	24,152	16,440
Other	266,127	283,136	90,124	83,537
Total	<u>\$ 1,660,046</u>	<u>\$ 1,636,473</u>	<u>\$ 572,086</u>	<u>\$ 554,377</u>

Note 16. Contingencies and Commitments

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

The ultimate legal and financial liability of Sequa in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. 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 Sheet, is not expected to have a material adverse effect on Sequa's consolidated financial position, although the resolution in any reporting period of one or more of these matters could have a significant impact on Sequa's results of operations for that period.

Various operating units of Sequa have had customers who have filed voluntary petitions for relief under 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. In addition, as to those bankruptcy cases where a customer's reorganization and/or liquidation plan clearly indicates that avoidance claims will likely be asserted or where such claims have been asserted, Sequa has undertaken an analysis to estimate its potential exposure for such claims in such bankruptcy cases.

At September 30, 2007, Sequa was contingently liable for \$35,032,000 of outstanding letters of credit and \$1,121,000 of surety bonds not reflected in the accompanying Consolidated Financial Statements. In addition, Sequa has guaranteed a bank line of credit for its MJB International Limited ("MJB") joint venture in an amount up to \$9,688,000. Sequa has also guaranteed 50% of the capitalized lease payments and 50% of the overdraft facility for its Turbine Surface Technology Limited ("TSTL") joint venture in an amount not to exceed 10,250,000 British pounds. At September 30, 2007, \$2,205,000 was outstanding under MJB's bank line of credit and 5,759,000 British pounds were outstanding related to the TSTL guarantees. Sequa is not aware of any existing conditions that would cause risk of loss relative to outstanding letters of credit, surety bonds or bank guarantees.

Note 17. Merger

On July 9, 2007, Sequa announced that it had entered an Agreement and Plan of Merger (the "Merger Agreement"), dated as of July 8, 2007, with Blue Jay Acquisition Corporation, a Delaware corporation ("Parent"), and Blue Jay Merger Corporation, a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Co"). Parent and Merger Co are entities directly and indirectly owned by Carlyle Partners V, L.P. and its affiliates (collectively, "Carlyle"). The Merger Agreement contemplates that Merger Co will be merged (the "Merger") with and into Sequa, with Sequa continuing as the surviving corporation and a wholly owned subsidiary of Parent. The Merger Agreement further contemplates that at the effective time of the Merger, each outstanding share of Class A Common Stock and of Class B Common Stock of Sequa (together, the "Common Stock"), other than shares owned directly or indirectly by Sequa, Parent and Merger Co and by any stockholders who properly exercise appraisal rights under Delaware law (the "Excluded Shares"), will be cancelled and converted into the right to receive \$175.00 in cash, without interest. On the unanimous recommendation of a committee of the Board of Directors (the "Transaction Committee") comprised entirely of independent directors, the Board of Directors of Sequa unanimously approved the Merger Agreement and recommended that Sequa's shareholders adopt the Merger Agreement. On September 17, 2007, a Special Meeting of Shareholders was held at which Sequa's shareholders approved the Merger.

Note 17. Merger (cont'd)

Sequa and Parent each have certain termination rights under the Merger Agreement. Under certain circumstances, Sequa will be obligated to pay Parent either (1) a termination fee in the amount of \$60,570,000 (the "Full Breakup Fee"), (2) a termination fee in the amount of \$30,285,000 *plus* the lesser of (x) \$10,000,000 and (y) Parent's expenses (the "Partial Breakup Fee") or (3) Parent's expenses. Under certain other circumstances, Parent will be obligated to pay Sequa a termination fee in the amount of \$60,570,000.

Parent has obtained debt financing commitments for the transactions contemplated by the Merger Agreement. Consummation of the Merger is not subject to a financing condition, but is subject to other customary closing conditions.

Under the Merger Agreement, certain restrictions exist on the conduct of Sequa's business prior to the completion of the Merger, requiring Sequa to conduct its business only in the ordinary course, subject to specific limitations, which may delay or prevent it from undertaking business opportunities that may arise pending completion of the Merger. Sequa has made customary representations and warranties and covenants in the Merger Agreement, including among others (i) to cause a meeting of Sequa's stockholders to be held and, unless consented to by the Parent, vote on the adoption of the Merger Agreement without adjourning the meeting, (ii) subject to certain exceptions, that Sequa's board of directors will recommend that Sequa's stockholders adopt the Merger Agreement and thereby approve the Merger and the other transactions contemplated by the Merger Agreement and (iii) if requested by Parent, to effect a redemption of the 9% Senior Unsecured Notes due 2009 and the 8 7/8% Senior Unsecured Notes due 2008 (collectively, the "Notes"), in each case issued by Sequa, which redemption would be conditioned upon the consummation of the Merger. Pursuant to the requirements of the Merger Agreement, (i) on September 17, 2007, Sequa held a meeting of its stockholders in which the board of directors recommended that the stockholders vote to adopt the Merger Agreement, and the stockholders voted to adopt the Merger Agreement; (ii) on October 18, 2007, at the request of Parent, Sequa gave notice to the trustee under the indenture for the Notes that all outstanding principal amounts of the Notes would be redeemed on the anticipated redemption date of November 21, 2007, conditioned on the consummation of the Merger.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Overview of Business

Sequa Corporation ("Sequa"), which was incorporated in 1929, is a diversified industrial company that produces a broad range of products through operating units in six business segments: Aerospace, Automotive, Metal Coating, Specialty Chemicals, Industrial Machinery and Other Products. On July 9, 2007, Sequa announced that it had entered an Agreement and Plan of Merger (the "Merger Agreement"), dated as of July 8, 2007, with Blue Jay Acquisition Corporation, a Delaware corporation ("Parent"), and Blue Jay Merger Corporation, a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Co"). Parent and Merger Co are entities directly and indirectly owned by Carlyle Partners V, L.P. and its affiliates (collectively, "Carlyle"). For further details, refer to the section entitled "Merger".

The following is a narrative description of the business segments of Sequa:

Aerospace

The Aerospace segment consists solely of Chromalloy Gas Turbine Corporation ("Chromalloy"), Sequa's largest operating unit. Chromalloy repairs and manufactures components for commercial and US military jet aircraft engines. A major independent supplier in the repair market, Chromalloy provides domestic and international airlines, as well as the US military, with technologically advanced repairs and coatings for turbine airfoils and other critical engine components. In addition, the unit supplies components to the original equipment manufacturers ("OEMs") and repairs components for marine and land-based aero derivative and industrial turbine engines used for power generation.

Automotive

This segment is composed of two businesses: ARC Automotive, Inc. ("ARC Automotive") and Casco Products Corporation ("Casco Products").

ARC Automotive. ARC Automotive, which pioneered the development of hybrid inflators for use in automotive airbags, produces inflators for driver, passenger, side impact and curtain airbag modules.

Casco Products. Casco Products, which has served the automotive products market since 1921, is believed by Sequa to be the world's leading supplier of automotive cigarette lighters and power outlets. Casco Products also offers a growing line of automotive accessories, including a series of electronic devices to monitor temperature, air quality and fluid levels. These electronic devices are used for measurement and control of certain gases and for monitoring engine oil and engine coolant.

Metal Coating

The Metal Coating segment consists solely of Precoat Metals ("Precoat"), which is a leader in the application of protective and decorative coatings to continuous steel and aluminum coil. Precoat's principal 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 the container industry, where the division has established a position in the application of coatings to steel and aluminum stock used to fabricate metal cans and can lids. In addition, the division has established a presence in other product markets, including residential roofing, heating, ventilating and air conditioning units, truck trailer panels and office equipment.

Overview of Business (cont'd)

Specialty Chemicals

The Specialty Chemicals segment is composed solely of Warwick International Group Limited ("Warwick"), which is a leading producer and supplier of TAED, a bleach activator used primarily in laundry detergents. TAED is used in oxygen-based bleaching systems to increase the cleaning power of detergents at low wash temperatures. These bleaching systems are used in international markets, principally in Europe. Warwick also produces TAED products for dishwasher detergents and for industrial uses, such as biocides and pulp and paper processing. In addition, Warwick owns a boutique supplier of laboratory test products and a network of European chemicals distributors that supply specialty products for use in plastics, resins, paints and cosmetics.

Industrial Machinery

The Industrial Machinery segment consists solely of MEGTEC Systems, Inc. ("MEGTEC Systems"), a leading producer of air flotation dryers and other auxiliary equipment for the graphic arts market and a supplier of emission control systems for graphic arts and other industrial applications.

Other Products

This segment is composed of two entities: After Six, Inc. ("After Six") and Centor Company ("Centor").

After Six. After Six designs and markets men's formalwear and accessories under the registered trademarks After Six, Raffinati and John Galanté. Products are sold primarily to the rental market.

Centor. Centor is a real estate holding company through which Sequa records rental income and gains or losses on sale of properties that are extraneous to Sequa's core operations.

Sales

Overall sales increased 1% in the nine-month period and 3% in the third quarter compared to last year. Higher sales for the nine-month period at the Specialty Chemicals segment were substantially offset by decreases at the Industrial Machinery and Other Products segments. Sales at the Metal Coating segment posted a modest increase while sales at the Aerospace and Automotive segments were on par with the nine-month period last year. In the third quarter, the Specialty Chemicals and Industrial Machinery segments increased sales significantly while the Metal Coating segment posted a modest increase in sales. At the Aerospace and Other Products segments sales were on par with the third quarter of last year while the Automotive segment posted a slight decline in the three-month period. Excluding the benefit from translating local currency sales into US dollars, overall sales decreased by 1% in the nine-month period and were relatively flat in the third quarter in comparison to the same periods in 2006. A description of sales by operating segment follows:

Sales of the Aerospace segment were on par with last year in both the nine-month and three-month periods with increased sales to commercial airlines substantially offset by lower sales to military and marine and industrial turbine customers in the nine-month period. In the third quarter, sales to commercial airlines and to the military increased modestly while sales to marine and industrial turbine customers decreased slightly. Increased sales to airlines resulted from new product introductions and long-term contracts with airline customers.

Sales of the Automotive segment were on par with last year in the nine-month period, and posted a slight decline in the three-month period. Increased sales at Casco Products were substantially offset by a decline in sales at ARC Automotive in both periods. The transfer of certain manufacturing operations to China in 2006

Sales (cont'd)

resulted in a decline in ARC's domestic sales and an increase in sales at its new China operation in both periods. Overall inflator volumes at ARC have increased 5% in the nine months, comprised of higher side and curtain volumes partially offset by lower volumes of driver and passenger products. Sales at Casco Products increased 11% in the nine-month period and 15% in the third quarter (5% and 8%, respectively, after excluding the benefit from translating local currency sales into US dollars) due primarily to higher sales of electronic products and lighters in Europe and China. Casco's domestic operations posted an increase in sensor sales and a decline in lighter sales in both periods.

Sales of the Metal Coating segment increased 1% in the nine-month period and 4% in the third quarter compared to last year. In the nine-month period the sales increase reflects higher steel sales partially offset by lower sales to the manufactured products and building products markets. In the third quarter increased sales to the building products market and increased steel sales were partially offset by lower sales to the manufactured products market. The increase in steel sales is primarily due the acquisition of certain coating assets from Chicago Finished Metals in January 2007 (which represented 8% and 4% of segment sales in the nine-month and three-month periods, respectively).

Sales of the Specialty Chemicals segment increased 19% in the nine-month period and 18% in the third quarter (9% in both periods, excluding the benefit of translating local currency sales into US dollars) reflecting an increase in TAED volumes and higher sales of the international marketing and distributions units in both periods.

Sales of the Industrial Machinery segment declined 3% in the nine-month period and increased 11% in the three-month period (a 7% decline and a 6% increase, respectively, excluding the benefit of translating local currency sales into US dollars). The decrease in the nine-month period was primarily driven by lower sales of graphic arts and emission control equipment in the United States. The increase in the three-month period is primarily the result of higher sales of emission control equipment in Europe and the United States. Backlog for the Industrial Machinery segment was \$86.3 million as of September 30, 2007 as compared to \$79.4 million as of December 31, 2006.

Sales of the Other Products segment declined \$3.2 million, or 27%, in the nine-month period and \$0.4 million, or 17%, in the third quarter reflecting reduced demand in the formal-wear market served by the After Six unit and the elimination of rental income from Centor, Sequa's real estate holding company, resulting from the sale of three properties in 2006.

Operating Income

Sequa's operating income increased 4% in the nine-month period and 16% in the third quarter compared to the same periods last year. For the nine-month period, higher operating income at the Aerospace, Automotive and Specialty Chemicals segments were partially offset by decreases at the Metal Coating and Industrial Machinery segments. For the third quarter, higher operating income at the Aerospace, Automotive and Industrial Machinery segments were partially offset by decreases from the Metal Coating and Specialty Chemicals segments. Operating income for both periods benefited from reduced corporate expenses, despite \$2.3 million of costs incurred in the third quarter of 2007 related to the pending Merger. For the nine-month periods of 2007 and 2006, Sequa's foreign operations contributed operating income of \$60.7 million and \$48.0 million, respectively (\$22.5 million and \$16.5 million, respectively, for the three-month periods). The increase in operating income from foreign operations primarily reflects higher sales at the overseas operations of the Automotive segment in both periods and at the Specialty Chemicals segment in the nine-month period as well as from the benefit of translating local currency results into US dollars (approximately \$4.4 million and \$1.5 million for the nine-month and three-month periods, respectively). A detailed review of operating income by segment follows:

Operating Income (cont'd)

Operating income of the Aerospace segment increased \$8.1 million, or 14%, in the nine months and \$4.8 million, or 26%, in the third quarter. The increase in both periods primarily reflects higher sales to commercial airlines from new product introductions and in the nine-month period the absence of certain charges taken in the second quarter of 2006. Excluding the effect of the 2006 charges, operating income increased 10% in the nine-month period of 2007.

Operating income of the Automotive segment increased \$2.3 million, or 21%, in the nine months and \$2.7 million, or 163%, in the third quarter, reflecting improved results at ARC Automotive and Casco Products in both periods. The increase at ARC Automotive is primarily driven by improved performance at its new China joint venture, which began operating in 2006, and a reduction in start up costs associated with its new facilities in China and Mexico. Casco Products posted an increase in operating income in both periods, primarily as a result of higher sales.

Operating income of the Metal Coating segment declined \$8.8 million, or 31%, in the nine months and \$2.4 million, or 23%, in the third quarter. The reduction was primarily the result of start up costs at its new plant in Birmingham, Alabama, which began operating in April 2007, and additional overhead costs from acquiring the Chicago facility from Chicago Finished Metals in January 2007, which is expected to close in the fourth quarter after its business is transferred to other facilities.

Operating income of the Specialty Chemicals segment increased \$2.0 million, or 10%, in the nine-month period reflecting higher sales volumes of TAED and reduced energy costs as well as a \$1.6 million benefit from favorable exchange rate movements. Operating income decreased \$2.0 million, or 24%, in the third quarter of 2007 primarily due to increased cost of materials.

Operating income of the Industrial Machinery segment declined \$1.2 million, or 11%, in the nine-month period primarily due to lower equipment sales in the United States. In the third quarter, operating income increased \$0.7 million, or 23%, as a result of higher sales in Europe and the United States.

Operating income of the Other Products segment increased \$0.2 million in the nine-month period and \$0.1 million in the third quarter primarily as a result of the absence of \$0.5 million in severance and other charges taken in the second quarter of 2006 partially offset by reduced sales at After Six and lower rental income from Centor in both periods of 2007.

Corporate expenses decreased \$1.4 million, or 5%, in the nine-month period and \$1.2 million, or 12%, in the third quarter compared to last year. Results include \$2.3 million of merger-related costs incurred in the third quarter of 2007 and \$3.9 million of charges for environmental remediation of land previously used by divested operations (of which \$0.3 million was incurred in the third quarter) offset by lower corporate salary and pension costs.

Interest Expense

Interest expense in the nine-month period of 2007 decreased by \$5.8 million compared with the prior year primarily as a result of the \$100 million redemption of Senior Notes during 2006 and a reduction in the outstanding balance of the foreign loan facilities.

Equity in Income of Unconsolidated Joint Ventures

Sequa's investments in unconsolidated joint ventures are primarily concentrated in the Aerospace segment.

Chromalloy Gas Turbine Corporation ("Chromalloy") is a partner in joint ventures aimed at strengthening its ties to certain original equipment manufacturers ("OEMs") and airline 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 \$92.8 million at September 30, 2007 and \$81.8 million at December 31, 2006. The combination of income and losses of Chromalloy's joint ventures was income of \$16.6 million and \$16.0 million in the nine-month periods of 2007 and 2006, respectively, and income of \$7.9 and \$6.0 million in the third quarters of 2007 and 2006, respectively. The largest of the Chromalloy joint ventures are discussed in the following paragraphs.

Chromalloy and Siemens Westinghouse Power Corporation and Siemens Aktiengesellschaft (collectively referred to as "Siemens") have joint ownership of four operating companies. Three of the companies provide service and repairs for heavy industrial gas turbines manufactured by other companies, and for gas turbines based on the mature technologies of Siemens and its affiliates. These three operating companies are: TurboCare Gas Turbine Services LLC ("TCGTS"), Turbine Services Ltd ("TS") and Gas Turbine Technologies, S.p.A. ("GTT"). The fourth operating company, Turbine Airfoil Coating and Repair, LLC ("TACR"), provides coating and component services on Siemens advanced engines. Chromalloy has a 49% ownership interest in TCGTS, which serves the North, Central and South American markets. Chromalloy has a 51% ownership interest in, and operating control over, TS which has operating assets in the UK and Thailand and serves Europe, the Far East and Middle East. The financial statements of TS are consolidated with those of Sequa, and a Siemens minority interest is reflected. MJB International Limited ("MJB"), a partnership with Al Masood, is 49% owned by TS and provides repair and maintenance services for industrial gas turbines from a facility in the United Arab Emirates. Sequa has guaranteed up to \$9.7 million of MJB's bank line of credit. At September 30, 2007, \$2.2 million was outstanding under this facility. Chromalloy has a 20% ownership interest in GTT, which serves Italy and certain other countries. Chromalloy has a 49% ownership interest in TACR.

Chromalloy has a 52.6% ownership interest in BELAC, a component manufacturing operation that produces new replacement parts for jet engines. The 52.6% ownership interest does not equate to a controlling interest primarily due to a super majority vote requirement (at least 75% approval) on certain key operational decisions. While Chromalloy's partners in this joint venture are major commercial airlines, whose industry has been under significant pressure, management believes that the venture is adequately capitalized to carry on its principal operations without additional subordinated financial support. At September 30, 2007, Sequa's investment in BELAC totaled \$10.7 million.

Chromalloy has two 50/50 joint ventures with Rolls-Royce plc: Turbine Surface Technology Limited ("TSTL"), which provides advanced coatings for Rolls-Royce turbine components; and Turbine Repair Technology Limited ("TRTL"), which provides advanced component repair services for certain Rolls-Royce engines. Sequa has guaranteed 50% of TSTL's future lease payments under the terms of a capitalized lease, as well as 50% of an overdraft facility. Total amounts subject to the guarantees may not exceed 10.3 million British pounds. At September 30, 2007, 5.8 million British pounds were outstanding related to the guarantees.

Advanced Coatings Technologies ("ACT"), a 50%-owned joint venture with United Technologies Corporation, owns and operates an electron beam ceramic coater for the application of Pratt & Whitney coatings to jet engine parts. In January 2007, Chromalloy and Pratt & Whitney announced plans to expand the ACT Joint Venture by opening a new facility, which will double the capacity of the existing operation.

Premium on Redemption of Senior Notes

In the nine-month period of 2006, Other income/expense includes a charge of \$4.5 million for premiums incurred on the redemption of \$100.4 million of the 8.875% Senior Notes, maturing April 2008 in unsolicited offers, of which \$0.7 million of the premium was incurred in the third quarter of 2006.

Other, net

In the nine-month period of 2007, Other, net included \$4.3 million of expense related to minority interests; \$2.2 million of charges for the amortization of capitalized debt issuance costs; \$0.9 million of charges for letters of credit and commitment fees; \$0.1 million of net loss related to the fair market value of foreign exchange contracts and derivatives thereof that did not qualify for cash flow hedge accounting; \$1.1 million of income on the cash surrender value of corporate-owned life insurance; and \$0.3 million in foreign currency transaction gains.

In the nine-month period of 2006, Other, net included \$2.8 million of charges for the amortization of capitalized debt issuance costs; \$1.4 million of charges for letters of credit and commitment fees; \$1.2 million of income on the cash surrender value of corporate owned life insurance; and \$0.9 million of expense related to minority interest holders.

In the third quarter of 2007, Other, net included \$1.7 million of expense related to minority interests; \$0.7 million of charges for the amortization of capitalized debt issuance costs; \$0.3 million of charges for letters of credit and commitment fees; \$0.2 million of losses on the cash surrender value of corporate-owned life insurance; and \$0.2 million in foreign currency transaction losses.

In the third quarter of 2006, Other, net included \$1.3 million of charges for the amortization of capitalized debt issuance costs; \$0.7 million of income on the cash surrender value of the corporate-owned life insurance; \$0.6 million gain on the sale of fixed assets; \$0.5 million of charges for letters of credit and commitment fees; and \$0.4 million of net gain related to the fair market value of natural gas swaps that did not qualify for hedge accounting.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes was \$64.1 million for the nine months ended September 30, 2007, which was composed of \$58.1 million of profits earned by Sequa's foreign operations and \$6.0 million of profits earned by Sequa's domestic operations. For the nine months ended September 30, 2006, Sequa's foreign and domestic operations contributed \$44.9 million and \$12.0 million, respectively, of income before income taxes. The results of the domestic operations include \$46.8 million and \$50.5 million of interest expense for the nine months ended September 30, 2007 and 2006, respectively, incurred primarily on the 9% and 8.875% Senior Notes.

The improvement in the results of the foreign operations was driven by increased operating results of the Specialty Chemicals segment and the foreign operations of the Automotive segment as well as a reduction in foreign interest expense. The decrease in the results of the domestic operations is primarily driven by reduced operating results of the Metal Coating segment and the domestic operations of the Automotive segment, partially offset by lower domestic interest expense.

Income Tax Provision

At the end of each quarter, Sequa estimates the effective tax rate expected to be applicable for the full fiscal year. The effective tax rates for the nine-month periods of 2007 and 2006 were based upon estimated annual pre-tax income from continuing operations, include the effect of a provision for state income and franchise taxes and reflect the utilization of net operating loss carryforwards by certain foreign entities.

Income Tax Provision (cont'd)

The effective tax rate for continuing operations was 30.9% for the first nine months of 2007, compared with 32.0% in the same period of 2006. In 2007, the \$19.8 million provision primarily reflects lower domestic taxable income.

Discontinued Operations

During 1991, Sequa adopted a formal plan to divest the investment portfolio of its leasing subsidiary, Sequa Capital Corporation (“Sequa Capital”), and to classify it as a discontinued operation. On March 27, 2006, Sequa Capital sold its ownership interests in two container ship leveraged leases for \$30.8 million of net cash proceeds and recognized an after-tax gain on the sale of approximately \$4.6 million (pre-tax gain of \$7.4 million) in discontinued operations. In the second quarter of 2006, Sequa recognized in discontinued operations an after-tax charge of \$1.2 million (pre-tax charge of \$3.1 million) to record the remaining investment in leveraged leases at fair value. The remaining investment in leveraged leases were sold in the third quarter of 2006.

Merger

On July 9, 2007, Sequa announced that it had entered an Agreement and Plan of Merger (the “Merger Agreement”), dated as of July 8, 2007, with Blue Jay Acquisition Corporation, a Delaware corporation (“Parent”), and Blue Jay Merger Corporation, a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Co”). Parent and Merger Co are entities directly and indirectly owned by Carlyle Partners V, L.P. and its affiliates (collectively, “Carlyle”). The Merger Agreement contemplates that Merger Co will be merged (the “Merger”) with and into Sequa, with Sequa continuing as the surviving corporation and a wholly owned subsidiary of Parent. The Merger Agreement further contemplates that at the effective time of the Merger, each outstanding share of Class A Common Stock and of Class B Common Stock of Sequa (together, the “Common Stock”), other than shares owned directly or indirectly by Sequa, Parent and Merger Co and by any stockholders who properly exercise appraisal rights under Delaware law (the “Excluded Shares”), will be cancelled and converted into the right to receive \$175.00 in cash, without interest. On the unanimous recommendation of a committee of the Board of Directors (the “Transaction Committee”) comprised entirely of independent directors, the Board of Directors of Sequa unanimously approved the Merger Agreement and recommended that Sequa’s shareholders adopt the Merger Agreement. On September 17, 2007, a Special Meeting of Shareholders was held at which Sequa’s shareholders approved the Merger.

Sequa and Parent each have certain termination rights under the Merger Agreement. Under certain circumstances, Sequa will be obligated to pay Parent either (1) a termination fee in the amount of \$60.6 million (the “Full Breakup Fee”), (2) a termination fee in the amount of \$30.3 million *plus* the lesser of (x) \$10.0 million and (y) Parent’s expenses (the “Partial Breakup Fee”) or (3) Parent’s expenses. Under certain other circumstances, Parent will be obligated to pay Sequa a termination fee in the amount of \$60.6 million.

Parent has obtained debt financing commitments for the transactions contemplated by the Merger Agreement. Consummation of the Merger is not subject to a financing condition, but is subject to other customary closing conditions. The parties currently expect to close the transaction during the fourth quarter of this year, subject to the satisfaction of the conditions specified in the Merger Agreement.

Under the Merger Agreement, certain restrictions exist on the conduct of Sequa’s business prior to the completion of the Merger, requiring Sequa to conduct its business only in the ordinary course, subject to specific limitations, which may delay or prevent it from undertaking business opportunities that may arise pending completion of the Merger. Sequa has made customary representations and warranties and covenants in the Merger Agreement, including among others (i) to cause a meeting of Sequa’s stockholders to be held and, unless consented to by the Parent, vote on the adoption of the Merger Agreement without adjourning the meeting, (ii) subject to certain exceptions, that Sequa’s board of directors will recommend that Sequa’s

Merger (cont'd)

stockholders adopt the Merger Agreement and thereby approve the Merger and the other transactions contemplated by the Merger Agreement and (iii) if requested by Parent, to effect a redemption of the 9% Senior Unsecured Notes due 2009 and the 8 7/8% Senior Unsecured Notes due 2008 (collectively, the “Notes”), in each case issued by Sequa, which redemption would be conditioned upon the consummation of the Merger. Pursuant to the requirements of the Merger Agreement, (i) on September 17, 2007, Sequa held a meeting of its stockholders in which the board of directors recommended that the stockholders vote to adopt the Merger Agreement, and the stockholders voted to adopt the Merger Agreement; (ii) on October 18, 2007, at the request of Parent, Sequa gave notice to the trustee under the indenture for the Notes that all outstanding principal amounts of the Notes would be redeemed on the anticipated redemption date of November 21, 2007, conditioned on the consummation of the Merger.

Risks Related to the Proposed Merger

There are a variety of risks and other potentially negative factors concerning the Merger Agreement and the Merger, including the following:

- the risk that the Merger may not be completed in a timely manner or at all;
- the risks and costs to Sequa if the Merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential effect on business and customer relationships;
- the restrictions on the conduct of Sequa’s business prior to the completion of the Merger, requiring Sequa to conduct its business only in the ordinary course, subject to specific limitations, which may delay or prevent it from undertaking business opportunities that may arise pending completion of the Merger;
- the interests of our executive officers and directors in the Merger; and
- certain restrictions on Sequa’s ability to solicit or engage in discussions or negotiations with any third party regarding specific transactions involving Sequa, and the requirement that Sequa pay to Parent a fee of \$60.6 million in order for the Board of Directors to accept a superior proposal on or after August 23, 2007.

Any such events could adversely affect Sequa’s stock price and harm its business and operating results.

Risk/Concentration of Business

Sequa's largest operation, Chromalloy, with 2007 nine-month sales of \$781.8 million and operating income of \$65.0 million (2006 annual sales and operating income of \$1,048.7 million and \$80.4 million, respectively), and total assets at December 31, 2006 of \$1,084.3 million, has confronted a difficult operating environment since the events of September 11, 2001. While global airline traffic has rebounded, high fuel costs, high cost structures imbedded at the legacy carriers (those carriers in existence prior to the de-regulation of the airline industry) and continuing terror threats have placed additional pressures on the airline industry, leading several airlines to file voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (“Chapter 11”). Chromalloy's repair and OEM operations, derive approximately 80% of their sales from the commercial aviation market. The large repair and overhaul business is directly related to the number of hours jet engines are flown, while the smaller OEM business is related to the number of new jet engines placed in service. In 2005, Chromalloy's results included a \$5.6 million charge to reserve pre-petition receivables related to certain Delta Airlines, Inc. (“Delta”) and Northwest Airlines Corporation (“Northwest”) contracts.

Risk/Concentration of Business (cont'd)

At September 30, 2007, trade and unbilled receivables due from major commercial airlines totaled approximately \$164.4 million.

Chromalloy competes for turbine engine repair business with a number of other companies, including the OEM's which in certain cases 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.

Sequa is engaged in the automotive airbag inflator business through ARC Automotive. ARC Automotive's largest customers for airbag inflators are Delphi Automotive Systems and its subsidiaries ("Delphi") and Key Safety Systems, Inc. and its subsidiaries ("Key Safety"). Delphi accounted for \$61.3 million or 34% of ARC Automotive's nine-month sales in 2007 (35% of 2006 annual sales). Key Safety accounted for \$47.6 million or 26% of ARC Automotive's nine-month sales in 2007 (31% of 2006 annual sales). These two customers accounted for approximately 39% of the Automotive segment's sales in the nine-month period of 2007. On October 8, 2005, Delphi filed for protection under Chapter 11. Sequa, in conjunction with outside legal counsel, has reviewed the long-term supply and licensing agreements that govern ARC Automotive's relationship with Delphi. In January 2006, these agreements were listed as executory in nature by Delphi and Sequa believes that the underlying business objectives of the agreements will result in their assumption. Sequa expects that the \$0.9 million pre-petition receivables will ultimately be collected.

Casco Products is engaged in the automotive products market and supplies cigarette lighters, power outlets and other automotive accessories to the automotive industry. In the nine-month period of 2007, a European automobile manufacturer accounted for 14% of Casco Products sales (22% of 2006 annual sales).

Precoat Metals markets its coating services to steel and aluminum producers and distributors, building products manufacturers, merchant can makers, and manufacturers of other diverse products. US Steel, historically Precoat Metal's largest customer, accounted for \$30.8 million or 14% of Precoat Metal's nine-month sales in 2007 (19% of 2006 annual sales).

In the Specialty Chemicals segment, one customer accounted for 31% of nine-month sales in 2007 (29% of 2006 annual sales) and the top three customers accounted for 43% of nine-month sales in 2007 (43% of 2006 annual sales). All of these customers are international consumer products companies with whom Warwick International has been doing business for many years.

MEGTEC Systems markets its industrial drying systems and emission control equipment directly to customers in the coating, converting, and metal finishing industries and sells auxiliary press equipment directly to international web printing press manufacturers and their customers. One customer accounted for 22% of nine-month sales in 2007 (20% of 2006 annual sales).

Backlog

The business of Sequa for which backlog is significant is the Industrial Machinery segment. The dollar amount of backlog for this segment was \$86.3 million or 48% of total consolidated backlog at September 30, 2007 (\$79.4 million or 47% of total consolidated backlog at December 31, 2006).

Liquidity and Capital Resources

Net cash provided by operating activities was \$24.3 million for the nine-month period of 2007 versus \$14.7 million in 2006. The \$9.6 million increase primarily reflects higher income from continuing operations and

Liquidity and Capital Resources (cont'd)

lower working capital requirements. Net cash used for investing activities was \$98.7 million in the nine-month period of 2007 versus \$16.8 million in 2006. The \$81.9 million change relates to \$47.0 million of net cash proceeds received from the sales of leveraged leases included in discontinued operations in 2006, \$15.1 million of cash used to acquire two small operations in the metal coating industry in 2007, a \$4.0 million investment in a specialty chemicals distribution company and a \$6.9 million investment in a foreign automotive products company in 2007. Net cash used for financing activities was \$24.7 million in the nine-month period of 2007 versus \$140.4 million in 2006. The \$115.7 million decrease relates to a \$142.2 million reduction in net debt payments offset by the release of \$28.4 million of restricted cash requirements in 2006.

In January 2007, Precoat acquired certain assets and liabilities of Chicago Finished Metals' coil coating business for cash consideration of \$12.7 million and in May 2007, acquired certain assets and liabilities of U.S. Coaters for \$2.4 million. In October 2007, Precoat acquired certain assets of Chesapeake Finished Metals from Chicago Metallic Corporation for \$10.5 million. Sequa will continue to focus its resources on its core business units that will provide the foundation for Sequa's growth. Sequa is conducting a thorough strategic evaluation of its operations to determine the optimal configuration and use of these resources, which may include the possible divestiture of certain of our non-core business units.

During the nine-month period of 2007, Sequa made payments of approximately \$26.3 million to reduce its outstanding debt under its foreign facilities. In 2006, Sequa purchased, through unsolicited offers, \$100.4 million in aggregate of the 8.875% Senior Notes at an average premium of \$104.4 and reduced its foreign debt by \$62.8 million. Management may elect to make additional purchases of outstanding Senior Notes and/or advanced payments of its foreign debt based on availability and other considerations.

On March 27, 2006, Sequa Capital sold its ownership interests in two container ship leveraged leases with an aggregate net book value of approximately \$23.4 million. Sequa received \$30.8 million of net-cash proceeds, which are being used for general corporate purposes. In the third quarter of 2006, Sequa sold its ownership interests in the remaining leveraged leases for net cash proceeds of \$16.2 million.

In the first quarter of 2007 and 2006, Sequa contributed \$0.6 million and \$6.0 million, respectively, to its domestic qualified pension plans. Management does not currently anticipate that any additional significant pension plan contributions will be made in 2007. Sequa monitors its pension plans on an ongoing basis.

Sequa's unsecured debt ratings, which are below investment grade, are as follows: Moody's, B1; Standard & Poors Rating Services, BB- and Fitch Ratings, BB.

On June 20, 2007, Sequa and certain foreign units in the Specialty Chemicals and Aerospace segments, each of which are wholly owned, indirect subsidiaries of Sequa, entered into an Amendment and Restatement Agreement Relating to the Facilities Agreement dated December 21, 2005 (the "Amended Facilities Agreement") with HSBC Bank plc. The Amended Facilities Agreement reduces the total amount of available funds for borrowing from \$185.0 million (comprised of a \$100.0 million multicurrency term loan, which had been reduced to \$44.0 million as a result of repayments, a \$35.0 million revolving credit facility, and a \$50.0 million letter of credit facility) to \$93.6 million. The new arrangement consists of a \$48.6 million variable rate multicurrency term loan and a \$45.0 million letter of credit facility and appoints HSBC Bank plc as the arranger, original fronting bank, agent, security agent, and original lender.

The multicurrency term loan requires minimum quarterly principal repayments of \$2.6 million and continues to have a five year term expiring in December 2010. The Amended Facilities Agreement is subject to financial covenants relating to the participating subsidiaries, including, as defined by the terms of the Amended Facilities Agreement, ratios of Net Borrowings to EBITDA; EBITDA to Interest Expense; Cash Flow to Senior Debt Service and Cash Flow to Total Debt Service. Operating restrictions include, with specified allowed maximums as defined in the Amended Facilities Agreement, amounts to be expended on

Liquidity and Capital Resources (cont'd)

mergers and acquisitions, investments in joint ventures, intercompany loans, capital lease obligations and guarantees.

On August 27, 2007, Sequa entered into a Loan Agreement with Bank of America, N.A under which Bank of America agreed to provide a \$25.0 million revolving line of credit to Sequa to be used for general working capital purposes. Interest on the line of credit will be payable at an annual rate of LIBOR plus 75 basis points and will adjust periodically. The line of credit will terminate upon the earlier of August 26, 2008 or a Change of Control (as defined). As of September 30, 2007, no amounts were outstanding under the line of credit facility.

At September 30, 2007, Sequa was contingently liable for \$35.0 million of outstanding letters of credit and \$1.1 million of surety bonds not reflected in the accompanying Consolidated Balance Sheet. In addition, Sequa has guaranteed up to \$9.7 million of its MJB joint venture's bank line of credit and up to 10.3 million British pounds of its TSTL joint venture's capitalized lease payments and overdraft facility. At September 30, 2007, \$2.2 million was outstanding under MJB's bank line of credit and 5.8 million British pounds were outstanding related to the TSTL guarantees. Sequa is not aware of any existing conditions that would cause demand for payment relative to the outstanding letters of credit, surety bonds or the guarantees.

Sequa Receivables Corporation ("SRC"), a special purpose corporation wholly owned by Sequa, has a Receivables Purchase Agreement ("RPA") that extends through May 8, 2009. Under the RPA, SRC may sell an undivided percentage ownership interest, up to a maximum participation of \$75.0 million, in Sequa's eligible trade receivables through a bank-administered multi-seller commercial paper conduit. Sequa's availability under the RPA as of September 30, 2007 was approximately \$75.0 million. A back-up liquidity line provided by the bank is annually renewable at the bank's option and contains a net worth covenant applicable to Sequa. The sale of receivables through the bank-administered conduit is funded through the sale of A1/P1-rated commercial paper. SRC pays a facility fee of 0.55% per annum plus 0.40% per annum above the commercial paper rate based on usage. SRC's assets will be available to satisfy its obligations to its creditors, which have a security interest in SRC's assets, prior to distribution to Sequa. In accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125," transactions under the RPA qualify as a sale of receivables. At September 30, 2007, no trade receivables were sold under the RPA.

Capital expenditures amounted to \$76.5 million in the nine-month period of 2007, with spending concentrated in the Aerospace and Metal Coating segments. These funds were primarily used to upgrade existing facilities and equipment and to expand capacity. Sequa currently anticipates that capital spending in 2007 will be in excess of \$100 million and will be concentrated primarily in the Aerospace, Automotive and Metal Coating segments.

Liquidity and Capital Resources (cont'd)

At September 30, 2007, Sequa's contractual obligations are as follows:

<u>Contractual obligations</u>	<u>Total</u>	<u>Payments Due by Period</u>			
		<u>2007</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>
			<u>2008-2009</u>	<u>2010-2011</u>	<u>=>2012</u>
(Amounts in thousands)					
(Unaudited)					
Long-term debt (a)	\$ 743,087	\$ 6,371	\$ 718,212	\$ 18,504	\$ -
Interest on long-term debt (b)	113,616	10,277	102,407	932	-
Operating leases (c)	62,481	4,809	30,621	17,318	9,733
Purchase and other obligations (d)	68,406	43,236	25,167	3	-
Other long-term liabilities:					
Projected minimum required pension contributions	7,800	-	4,000	2,100	1,700
Environmental remediation (e)	12,770	2,597	7,183	1,676	1,314
Total	\$ 1,008,160	\$ 67,290	\$ 887,590	\$ 40,533	\$ 12,747

- (a) Represents long-term debt cash payment schedule and excludes net amortizable debt discount of \$0.7 million.
- (b) Interest on long-term debt represents interest payments due on Sequa's 8 7/8% and 9% Senior Notes and the HSBC Facility Agreement. Interest payments on other debt amounts are not significant.
- (c) Operating lease obligations include future rental payments on a leased facility that was excluded from the sale of the ARC propulsion business.
- (d) Purchase obligations include agreements to purchase goods and services and other contractual commitments that are considered enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the appropriate timing of the transactions. The amounts shown represent those amounts considered by Sequa to be enforceable and legally binding and include short-term purchase orders for the purchase of goods or services as well as capital expenditure and other contractual commitments.
- (e) Actual environmental remediation expenditures may be higher than amounts contractually obligated as Sequa may undertake remediation activities without requirements imposed by consent orders or consent agreements with Federal and state authorities or by litigation.

The contractual table above excludes FIN 48 liabilities for unrecognized tax benefits in the amount of \$41.7 million as there is a high degree of uncertainty regarding the timing of future cash outflows associated with such liabilities.

Management currently anticipates that the following will provide sufficient funds to support Sequa's operations for the next twelve months: cash flow from operations; \$76.0 million of cash and cash equivalents on hand at September 30, 2007; amounts available under the RPA; amounts available under the \$25.0 million Bank of America line of credit facility; and the amounts available under the \$45.0 million facility for the issuance of letters of credit that is secured by assets of certain foreign units in both the Aerospace and Specialty Chemicals segments. Expected requirements include \$65.3 million of interest payments due in the next year on the outstanding 9% and 8 7/8% Senior Notes (subject to the redemption of such Notes pursuant to

Liquidity and Capital Resources (cont'd)

the consummation of the Merger) and the HSBC Facility Agreement; \$10.5 million of principal payments on the HSBC Facility agreement; approximately \$100.0 million of capital expenditures for continuing operations; the other contractual obligations summarized above; and any future requirements for letters of credit and surety bonds, which totaled \$36.2 million at September 30, 2007.

On October 18, 2007, Sequa notified The Bank of New York, as successor trustee under the Indenture dated July 29, 1999, that Sequa had elected to exercise its option to conditionally redeem (the "Redemption") all of its outstanding 8 7/8% Senior Unsecured Notes due 2008 and 9% Senior Unsecured Notes due 2009 (collectively the "Notes"). The redemption price will be the greater of (a) 100% of the outstanding principal amount thereof and (b) the sum of the present values of the remaining scheduled payments of interest and principal discounted to the date of the redemption on a semi-annual basis at the treasury rate in effect on the second business day prior to the redemption date plus 50 basis points. Holders of the redeemed Notes will also receive accrued and unpaid interest thereon up to but not including the redemption date. The anticipated redemption date is November 21, 2007, and in no event will the redemption date be later than December 21, 2007. The Redemption is conditional on the consummation of the Merger. For further details of the Merger, refer to the section entitled "Merger".

Off-Balance Sheet Arrangements

Off-balance sheet arrangements include certain guarantees that may be a source of potential risk to a company's future liquidity, capital resources and results of operations, regardless of whether they are recorded as liabilities.

Sequa's guarantees are primarily limited to the use of letters of credit and surety bonds that serve to guarantee Sequa's own performance with respect to liabilities owed or contractual deadlines. A discussion of Sequa's letters of credit and surety bonds is included in the Liquidity and Capital Resources section of this Quarterly Report on Form 10-Q.

SRC, a special purpose corporation wholly owned by Sequa, has a RPA that extends through May 8, 2009. A further discussion of the RPA is included in Note 7 to the Consolidated Financial Statements and in the Liquidity and Capital Resources section of this Quarterly Report on Form 10-Q.

At September 30, 2007, all minimum required capital contributions to Sequa's joint ventures have been satisfied. Future contributions to the joint ventures require the approval of the respective joint venture's board of directors. In January 2007, Chromalloy entered into an agreement with Pratt & Whitney to expand the ACT joint venture. Chromalloy expects to contribute machinery and equipment valued at approximately \$17 million to support the expansion. In addition, Sequa has guaranteed a bank line of credit for MJB up to \$9.7 million. Sequa has also guaranteed up to 10.3 million British pounds of the TSTL joint venture's capitalized lease payments and overdraft facility. At September 30, 2007, \$2.2 million was outstanding under MJB's bank line of credit and 5.8 million British pounds were outstanding related to the TSTL guarantees. Sequa is not aware of any existing conditions that would cause demand for payment relative to the outstanding letters of credit, surety bonds or the guarantees.

Significant Accounting Policies and Estimates

Sequa believes that the application of the following accounting policies is important to its financial position and results of operations and requires significant judgments and estimates on the part of management.

Significant Account Policies and Estimates (cont'd)

Allowance for Doubtful Accounts

Certain of Sequa's operating segments provide services to industries that are experiencing, or have experienced, difficult economic pressures. The Aerospace segment performs repair and other services for the commercial airline industry, and the ARC Automotive unit of the Automotive segment has a major customer operating under Chapter 11. See the Risk/Concentration of Business section of the Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q for further discussion. Many of Sequa's customers are large, well-known companies, and the customer base is monitored through a review of account balance agings, an assessment of customer financial condition, and interactions with the customers. Reserves are established through a combination of specific identification of problem accounts and percentages of aging brackets.

Inventory Valuation

The Aerospace segment (Chromalloy) maintains significant inventories of parts to serve the commercial aviation repair market. 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 usage. The policy provides for a consistent and systematic approach to valuing inventory at the lower of cost or market, with inventory values reassessed quarterly and at year-end for adequacy. The decline in air travel immediately after September 11, 2001, and the related reduction in the number of hours jet engines are flown, had an unfavorable impact on inventory valuations. A future precipitous decline in air travel would have a similar unfavorable impact. Management believes that the long-term outlook for the industry is positive.

Property, Plant and Equipment

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 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.

Goodwill

SFAS No. 142 requires that goodwill and other indefinite lived intangible assets be tested for impairment on an annual basis. Sequa updated its review of goodwill on its selected annual test date of October 1, 2006 and noted no impairment. In assessing the recoverability of goodwill, assumptions are made with respect to future business conditions and estimated expected future cash flows to determine the fair value of a reporting unit. If these estimates and assumptions change in the future due to such factors as a decline in general economic conditions; a long-term or permanent decline in air travel; competitive pressures on sales and margins; and other factors beyond management's control, an impairment charge may be required.

Revenue Recognition

Generally, sales are recorded when persuasive evidence of an arrangement exists, the selling price is fixed or determinable, collectibility is reasonably assured and the services have been rendered or the products have been shipped and risk of loss has transferred to the customer.

The Industrial Machinery segment, which consists solely of MEGTEC Systems, manufactures and sells large industrial equipment. For contracts that include multiple deliverables, such as installation, repair, training, aftermarket supplies or service, Sequa applies the guidance in Emerging Issues Task Force ("EITF") 00-21 "*Revenue Arrangements with Multiple Deliverables*" to determine whether the contract or arrangement contains more than one unit of accounting. An arrangement is separated if: (1) the delivered element(s) has value to the customer on a stand-alone basis; (2) there is objective and reliable evidence of the fair value of the undelivered element(s); and (3) the arrangement includes a general right of return relative to the delivered element(s), delivery or performance of the undelivered element(s) is considered probable and is substantially

Significant Account Policies and Estimates (cont'd)

in the control of Sequa. If all three criteria are fulfilled, the appropriate revenue recognition convention is then applied to each separate unit of accounting. The total arrangement consideration is allocated to the separate units of accounting based on each component's objectively determined fair value, such as sales prices for the component when it is regularly sold on a stand-alone basis or third-party prices for similar components. If the three criteria are not met, revenue is deferred until such criteria are met or until the period in which the last undelivered element is delivered. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements or meeting other specified performance conditions.

The Aerospace Segment, which consists solely of Chromalloy, provides repair and overhaul services to commercial airline customers, certain of which services are provided under long term materials-by-the-hour and power-by-the-hour contracts. Sequa applies the proportional performance method to recognize revenue under these contracts. Revenue is recognized as units are delivered based on the relative fair value in proportion to the total estimated contract consideration or, in the case when the services are similar, based on an allocation of total contract revenue. Accounting for these contracts involves management judgment in estimating total contract consideration and applying the relative fair value to the services provided. Total contract consideration is estimated by applying a contractual billing rate per flight hour to the customer's estimated total flight hours of a defined fleet over the term of a contract. The services to be provided over the term of a contract are estimated from the frequency and extent of maintenance and overhaul requirements which are based on historical performance trends and regulatory guidelines. Significant factors that influence these estimates primarily include flight hour assumptions and fleet utilization.

As of September 30, 2007 and December 31, 2006, unbilled revenues recorded as an asset in relation to these contracts were \$85.5 million and \$67.0 million, respectively. The unbilled asset balance represents the cumulative difference between revenue recognized for delivered items and the amounts billed under the hourly billing arrangements in the contracts based on flight hours less any amounts of revenue that are deferred because they are not contractually recoverable. The unbilled balance is reviewed on a quarterly basis to ensure that the amounts are recoverable based on performance under the contract.

Pensions

Pension expense and pension liabilities are actuarially determined and are affected by management's assumptions with respect to the discount rate for obligations, the future rate of increase in compensation levels, and the expected long-term rate of return on plan assets. Pension expense and liabilities can also be affected by changes in plan benefits 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- and medium-grade corporate long-term bond rates. The rate of increase in compensation levels is based on management's assessment of the current and future economic environment and overall salary trends. 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 (income) and related liabilities.

Income Taxes

Sequa's annual tax rate is based on its income, statutory tax rates and tax planning opportunities available to the company in the various jurisdictions in which it operates. Significant judgment is required in determining the company's annual tax rate and in evaluating its tax positions. Sequa adjusts its reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit.

In June 2006, FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*," ("FIN 48") was issued. FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an

Significant Account Policies and Estimates (cont'd)

enterprise's financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes*." FIN 48 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. Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized, or continue to be recognized, upon adoption.

Sequa adopted the provisions of FIN 48 on January 1, 2007. As a result of adoption, Sequa recognized a charge of \$23.1 million to the January 1, 2007 retained earnings balance. As of the adoption date, Sequa's unrecognized tax benefits totaled \$42.6 million, all of which, if recognized, would affect the effective tax rate. Consistent with the provisions of FIN 48, Sequa reclassified \$13.9 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date.

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.

Sequa has significant domestic net operating loss carryforwards. Management believes that such carryforwards will be utilized before their expiration through future reversals of existing taxable temporary differences, future earnings and available tax planning strategies. Sequa's ability to generate the expected amounts of domestic taxable 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 domestic taxable income in the carryforward period or that available tax strategies can be enacted. However, management has considered the above factors in reaching the conclusion that it is more likely than not that future domestic taxable income and available tax strategies will be sufficient to fully realize the domestic operating loss carryforwards and deferred tax assets at September 30, 2007.

Environmental

Sequa's environmental department, under senior management's direction, manages all activities related to Sequa's involvement in environmental cleanup. This department establishes the projected range of expenditures for individual sites with respect to which Sequa may be considered a potentially responsible party under applicable federal or state laws. These 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. It is Sequa's policy to accrue 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. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures.

Other Information

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the

Other Information (cont'd)

beginning of our 2008 fiscal year. The application of SFAS 157 is not expected to have an impact on Sequa's financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 are effective as of the beginning of the 2008 fiscal year. The application of SFAS 159 is not expected to have an impact on Sequa's financial statements.

Forward-Looking Statements

This document contains "forward looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. All statements, other than statements of historical fact contained in this Quarterly Report and other periodic reports filed by Sequa under the Exchange Act and other written or oral statements made by Sequa or on its behalf, are forward-looking statements. We generally identify these statements by words or phrases, such as "anticipate," "estimate," "plan," "expect," "believe," "intend," "foresee," "will," "may," and similar words or phrases. These statements include, among others, the proposed merger, our future earnings and other measurements of financial performance, the effect of economic downturns or growth in particular markets, future cash flows and uses of cash, pension plan assumptions and future contributions, restructurings, the outcome of contingencies disclosed in this Report, future levels of indebtedness and capital spending and product developments and new business opportunities.

These statements are subject to risks, uncertainties, and other factors, including, among others, the implementation of the proposed merger, general economic conditions in the United States and other countries in which we conduct our business, our ability to implement our strategy, our significant amount of indebtedness and related debt service obligations, competition, the control by the estate of our late Executive Chairman, economic, political and other developments associated with our international operations, and risks, uncertainties and factors set forth in our reports and documents filed with the United States Securities and Exchange Commission (which reports and documents should be read in conjunction with this Quarterly Report on Form 10-Q). We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update these statements in light of subsequent events or developments. Actual results and outcomes may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sequa is exposed to market risk from changes in foreign currency exchange rates and from changes in the prices of certain commodities which impact its earnings, cash flows and financial condition. Sequa manages its exposure to this market risk through its regular operating and financial activities and, when appropriate, through the use of derivative financial instruments. Sequa has established a control environment which assigns senior executives and, in certain instances operational management, responsibility for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Sequa does not buy, hold or sell derivative financial instruments for trading purposes. Sequa's primary foreign currency exposures relate to the British pound and to the Euro. To mitigate the short- and near-term effect of changes in currency exchange rates, Sequa utilizes forward foreign exchange contracts and derivatives thereof to manage its exposure to certain existing assets and liabilities and to hedge forecasted transactions and firm commitments denominated in currencies other than the functional currency. Depending on the volatility of the market, Sequa utilizes natural gas swap agreements to convert a portion of its natural gas requirements to fixed rates. Depending on the use of a derivative and whether it has been designated and qualifies as an effective hedge, gains and losses resulting from changes in the value of the derivative are recognized currently in earnings or reported in Accumulated Other Comprehensive Income, a separate component of shareholders' equity.

A hypothetical 10% uniform decrease in all foreign currency exchange rates relative to the US dollar would have decreased the fair value of Sequa's financial instruments by approximately \$1.2 million as of September 30, 2007 and \$0.5 million as of December 31, 2006. The sensitivity analysis relates only to Sequa's exchange rate-sensitive financial instruments, which include cash and debt amounts denominated in foreign currencies and all open foreign forward exchange contracts at September 30, 2007 and December 31, 2006. The effect of this hypothetical change in exchange rates ignores the effect this movement may have on the value of net assets, other than financial instruments, denominated in foreign currencies and does not consider the effect this movement may have on anticipated foreign currency cash flows.

At September 30, 2007 and December 31, 2006, Sequa had forward foreign exchange contracts and derivatives thereof with notional amounts primarily denominated in Euros: 43.0 million and 10.3 million, respectively; in US Dollars: 74.1 million and 31.3 million, respectively; in Swedish Krona: zero and 30.6 million, respectively; and in British Pounds: 1.0 million and zero, respectively. At September 30, 2007, Sequa had no natural gas swaps outstanding.

At September 30, 2007 and December 31, 2006, substantially all of Sequa's debt was at fixed rates, with the exception of the multi-currency variable rate debt issued on December 21, 2005. Sequa currently does not hold interest rate derivative contracts. Accordingly, a change in market interest rates would not materially impact Sequa's interest expense but would affect the fair value of Sequa's debt. Generally, the fair value of fixed-rate debt increases as interest rates fall and decreases as interest rates rise. The fair value of Sequa's total debt was approximately \$765.5 million at September 30, 2007 and \$807.2 million at December 31, 2006. A hypothetical 1% increase in interest rates would have decreased the fair value of Sequa's total debt by approximately \$9.5 million at September 30, 2007 and \$14.5 million at December 31, 2006. A hypothetical 1% decrease in interest rates would have increased the fair value of Sequa's total debt by approximately \$9.7 million at September 30, 2007 and \$14.9 million at December 31, 2006. The fair value of Sequa's total debt is based primarily upon quoted market prices of Sequa's publicly traded securities. The estimated changes in the fair values of Sequa's debt are based upon changes in the present value of future cash flows as derived from the hypothetical changes in market interest rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (cont'd)

The following table presents the carrying amounts and fair values of Sequa's derivative and non-derivative financial instruments:

	At September 30, 2007		At December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Amounts in thousands) (Unaudited)			
Assets				
Cash and cash equivalents	\$ 76,049	\$ 76,049	\$ 173,307	\$ 173,307
Forward foreign exchange contracts	680	680	581	581
Liabilities				
Current and long-term debt	742,435	765,496	764,934	807,177
Forward foreign exchange contracts	1,282	1,282	373	373
Gas swaps	-	-	86	86

The fair value of cash and cash equivalents approximates the carrying amount due to the short maturity of those instruments. The fair value of Sequa's debt is primarily based upon quoted market prices of publicly traded securities, except the debt issuance with HSBC effective December 21, 2005 with variable interest rates, which issuance amount approximates fair value at September 30, 2007. The fair value of forward foreign exchange contracts and derivatives thereof is based on fair market valuations. The fair value of Sequa's natural gas swap agreements is based upon the amounts that Sequa could have settled with the counterparties to terminate the natural gas swaps outstanding.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q Sequa carried out an evaluation, under the supervision and with the participation of Sequa's senior management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of Sequa's disclosure controls and procedures.

Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer of Sequa have concluded that Sequa's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that the information required to be disclosed by Sequa in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Other Information

The certifications of Sequa's Chief Executive Officer and Chief Financial Officer attached as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning Sequa's disclosure controls and procedures and internal controls over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certifications.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information with respect to Sequa's legal proceedings is included in Note 16 to the Consolidated Financial Statements of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes in Sequa's risk factors from those disclosed in Sequa's 2006 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs
July 1, 2007 – July 31, 2007	None	None	None	None
August 1, 2007 – August 31, 2007	None	None	None	None
September 1, 2007 – September 30, 2007	None	None	None	None
Total	-	-	-	-

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A Special Meeting of Stockholders of Sequa Corporation was held on September 17, 2007 for the purpose of adopting the Agreement and Plan of Merger, dated as of July 8, 2007 (the "Merger Agreement"), by and among Blue Jay Acquisition Corporation ("Parent"), Blue Jay Merger Corporation ("Merger Co") and Sequa. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, and there was no solicitation in opposition to management's solicitations.

The adoption of the Merger Agreement was completed with the following vote:

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>
34,042,812	6,203	6,224

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 2.1 Merger Agreement, dated as of July 8, 2007, by and among Blue Jay Acquisition Corporation and Blue Jay Merger Corporation and Sequa Corporation (filed as Exhibit 2.1 to the Registrant's Form 8-K, filed on July 10, 2007 and incorporated herein by reference).
- 3.1 Restated Certificate of Incorporation of Sequa Corporation dated as of February 15, 1985, as amended by the Certificate of Amendment of Restated Certificate of Incorporation dated as of April 24, 1986, as amended by two Certificates of Amendment of Restated Certificate of Incorporation each dated as of December 19, 1986, as amended by the Certificate of Amendment of Certificate of Incorporation dated May 7, 1987, as amended by the Certificate of Change of Registered Agent and Registered Office dated October 6, 1989, as amended by the Certificate of Amendment of Certificate of Incorporation dated June 4, 1999, as amended by the Certificate of Amendment to the Certificate of Incorporation dated May 3, 2007, and the Certificate of Designation dated December 22, 1986 (with respect to the \$5.00 Cumulative Convertible Preferred Stock of the Registrant) and the Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant dated November 13, 2000 (filed as Exhibit 3.1 to the Registrant's Form 10-Q, filed on May 4, 2007 and incorporated herein by reference).
- 3.2 Amended and Restated By-laws of Sequa Corporation (as of March 23, 2006) (filed as Exhibit 3.2 of Sequa's Form 8-K filed on March 29, 2006 and incorporated herein by reference).
- 10.1 Sequa Corporation 2003 Directors' Stock Award Plan (filed as Exhibit 10.2 to the Registrant's Form 10-Q, filed on May 4, 2007 and incorporated herein by reference).
- 10.2 2007 Long-Term Stock Incentive Plan (filed as Exhibit 10.3 to the Registrant's Form 10-Q, filed on May 4, 2007 and incorporated herein by reference).

ITEM 6. EXHIBITS (cont'd)

- 10.3 Management Incentive Bonus Program For Corporate Executive Officers (as amended and restated as of March 30, 2007) (filed as Exhibit 10.4 to the Registrant's Form 10-Q, filed on May 4, 2007 and incorporated herein by reference).
- 10.4 Employment Agreement Amendment, dated May 1, 2007, between Kenneth J. Binder and Sequa Corporation (filed as Exhibit 10.5 to the Registrant's Form 10-Q, filed on May 4, 2007 and incorporated herein by reference).
- 10.5 Restricted Share Agreement dated May 18, 2007 between Sequa Corporation and Dr. Martin Weinstein (filed as Exhibit 10.1 to the Registrant's Form 8-K, filed on May 22, 2007 and incorporated herein by reference).
- 10.6 Amendment and Restatement Agreement Relating to the Facilities Agreement dated December 21, 2005, by and among the Company as Obligor's Agent (as defined in the Facility Agreement), Warwick International Group Limited, Chromalloy United Kingdom Limited, Chromalloy Holland B.V., Sequa Limited, Chromalloy Metal Tectonics Limited, Chromalloy Gas Turbine Europa B.V., Chromalloy (Thailand) Limited, Chromalloy Holdings (Thailand) Limited, each of which are wholly owned, indirect subsidiaries of the Company, and HSBC Bank plc. (filed as Exhibit 10.1 to the Registrant's Form 8-K, filed on June 25, 2007 and incorporated herein by reference).
- 10.7 Guarantee, dated as of July 8, 2007, by and among Carlyle Partners V, L.P. and Sequa Corporation (filed as Exhibit 10.1 to the Registrant's Form 8-K, filed on July 10, 2007 and incorporated herein by reference).
- 10.8 Voting Agreement, dated as of July 8, 2007, by and among certain principal stockholders, Sequa Corporation, Blue Jay Acquisition Corporation and Blue Jay Merger Corporation (filed as Exhibit 10.2 to the Registrant's Form 8-K, filed on July 10, 2007 and incorporated herein by reference).
- 10.9 Amendment to Rights Agreement, dated as of July 8, 2007, by and between Sequa Corporation and The Bank of New York, as Rights Agent (filed as Exhibit 10.3 to the Registrant's Form 8-K, filed on July 10, 2007 and incorporated herein by reference).
- 10.10 Loan Agreement dated August 27, 2007 between Bank of America, N.A. and Sequa Corporation (filed as Exhibit 10.1 to Registrant's Form 8-K, filed on August 30, 2007 and incorporated herein by reference).
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 99.1 Notice of Redemption dated October 18, 2007 to The Bank of New York as successor Trustee under the Indenture dated July 29, 1999 between Sequa Corporation and Harris Trust Company of New York (filed as Exhibit 99.1 to Registrant's Form 8-K, filed on October 23, 2007 and incorporated herein by reference).

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

SEQUA CORPORATION

BY /s/ Kenneth J. Binder

Kenneth J. Binder

Executive Vice President and
Chief Financial Officer

October 29, 2007