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NN INC
Form 10-Q/A
August 14, 2001

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

FORM 10-QA

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

For the quarterly period ended March 31, 2001

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 0-23486

NN, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

62-1096725
(I.R.S. Employer
Identification Number)

2000 Waters Edge Drive
Building C, Suite 12
Johnson City, Tennessee 37604
(Address of principal executive offices, including zip code)

(423) 743-9151
(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 X No

As of May 14, 2001 there were 15,246,909 shares of the registrant's common
stock, par value \$0.01 per share, outstanding.

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NN, Inc.

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PART I. FINANCIAL INFORMATION

NN, Inc.
Consolidated Statements of Income and Comprehensive Income (Loss)
(Unaudited)

| Thousands of Dollars, Except Share and Per Share Data | Three Months March 2001 (Restated) |
|---|---|
| Net sales | \$50,227 |
| Cost of goods sold | 38,184 |
| Gross profit | 12,043 |
| Selling, general and administrative | 4,014 |
| Depreciation and amortization | 3,310 |

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| | |
|--|-----------|
| Income from operations | 4,719 |
| Interest expense | 1,182 |
| Equity in earnings of unconsolidated affiliate | (49) |
| Net loss on involuntary conversion | -- |
| Other income | (132) |
| Income before provision for income taxes | 3,718 |
| Provision for income taxes | 1,636 |
| Minority interest in consolidated subsidiary | 536 |
| Income before cumulative effect of change in accounting principle | 1,546 |
| Cumulative effect of change in accounting principle, net of income tax benefit of \$112 and related minority interest impact of \$84 | 98 |
| Net income | 1,448 |
| Other comprehensive loss: | |
| Foreign currency translation adjustments | (3,386) |
| Comprehensive income (loss) | \$(1,938) |
| Basic income per share: | |
| Income before cumulative effect of change in accounting principle | \$ 0.10 |
| Cumulative effect of change in accounting principle | -- |
| Net Income | \$ 0.10 |
| Weighted average shares outstanding | 15,247 |
| Diluted income per share: | |
| Income before cumulative effect of change in accounting principle | \$ 0.10 |
| Cumulative effect of change in accounting principle | (0.01) |
| Net income | \$ 0.09 |
| Weighted average shares outstanding | 15,396 |

See accompanying notes.

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Assets

Current assets:

| | |
|--------------------------------|-------|
| Cash | \$ 7, |
| Accounts receivable, net | 38, |
| Inventories, net | 24, |
| Other current assets | 2, |
| Net current deferred tax asset | 1, |

Total current assets 73,

| | |
|------------------------------------|-----|
| Property, plant and equipment, net | 89, |
| Goodwill, net | 41, |
| Other non-current assets | 4, |

Total assets \$209,
=====

Liabilities and Stockholders' Equity

Current liabilities:

| | |
|--------------------------------------|-------|
| Accounts payable | \$19, |
| Accrued salaries, wages and benefits | 10, |
| Income taxes payable | 2, |
| Accrued pension | 1, |
| Payable to affiliates | 3, |
| Short-term loan | |
| Short-term portion of long-term debt | 5, |
| Other liabilities | 3, |

Total current liabilities 46,

| | |
|--|-----|
| Minority interest in consolidated subsidiaries | 28, |
| Deferred income taxes | 5, |
| Long-term debt | 65, |
| Other | |

Total liabilities 147,

Total stockholders' equity 62,

Total liabilities and stockholders' equity \$209,
=====

See accompanying notes.

NN, Inc.
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

| Thousands of Dollars | Common Stock Number of shares | Par Value | Additional paid in capital | Retained earnings |
|--------------------------|-------------------------------------|--------------|-------------------------------|----------------------|
| Balance, January 1, 2000 | 15,244 | \$ 153 | \$30,398 | \$31,255 |
| Net income | | | | 2,110 |
| Dividends | | | | (1,220) |

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| | | | | |
|------------------------------------|--------|--------|----------|----------|
| Other comprehensive loss | | | | |
| Balance, March 31, 2000 | 15,244 | \$153 | \$30,398 | \$32,145 |
| Balance, January 1, 2001 | 15,247 | \$ 153 | \$30,414 | \$36,364 |
| Net income | | | | 1,448 |
| Dividends | | | | (1,220) |
| Other comprehensive loss | | | | |
| Balance, March 31, 2001 (Restated) | 15,247 | \$ 153 | \$30,414 | \$36,592 |

See accompanying notes.

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NN, Inc.
Consolidated Statements of Cash Flows (Restated)
(Unaudited)

Thousands of Dollars

Operating Activities:

Net income
Adjustments to reconcile net income to net cash provided by operating activities:

- Cumulative effect of change in accounting principle
- Depreciation and amortization
- Loss on disposal of property, plant and equipment
- Equity in earnings of unconsolidated affiliate
- Interest income from receivable from unconsolidated affiliate
- Minority interest in consolidated subsidiaries
- Accounts receivable
- Inventories
- Other current assets
- Other assets
- Accounts payable
- Income taxes payable
- Other liabilities

Net cash provided by operations

Investing Activities:

- Acquisition of Delta Rubber Company, net of cash acquired
- Acquisition of property, plant and equipment and other investing activities, net
- Long-term note receivable

Net cash used by investing activities

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Financing Activities:

Net borrowings (payments) under revolving line of credit
Repayment of long-term debt
Repayment of short-term loan
Dividends

Net cash provided (used) by financing activities

Net change in cash and cash equivalents
Effect of exchange rates changes
Cash and Cash Equivalents at Beginning of Period
Cash and Cash Equivalents at Period-End

See accompanying notes.

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NN, Inc.
Notes To Consolidated Financial Statements

Note 1. Interim Financial Statements

The accompanying consolidated financial statements of NN, Inc. have not been audited by independent accountants, except for the balance sheet at December 31, 2000. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to present fairly the results of operations for the three-month periods ended March 31, 2001 and 2000, the Company's financial position at March 31, 2001 and December 31, 2000, and the cash flows for the three-month periods ended March 31, 2001 and 2000. These adjustments are of a normal recurring nature and are, in the opinion of management, necessary for fair presentation of the financial position and operating results for the interim periods.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q.

The results for the first quarter of 2001 are not necessarily indicative of future results.

Note 2. Restatement and Accounting Change

The Company has determined that an interest rate swap was not recorded or disclosed in the previously filed March 31, 2001 quarterly financial statements and needs to be accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective January 1, 2001. The Company was required on January 1, 2001, to adopt SFAS No. 133 which establishes accounting and reporting standards for derivative instruments and for hedging activities. The Standard requires the recognition of all derivative instruments on the balance sheet at fair value. The Standard allows for hedge accounting if certain requirements are met including documentation of the hedging relationship at inception and upon adoption of the Standard.

In connection with a variable Euribor rate debt financing in July 2000 the

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Company's 54% owned subsidiary, NN Euroball ApS entered into an interest rate swap with a notional amount of Euro 12.5 million for the purpose of fixing the interest rate on a portion of their debt financing. The interest rate swap provides for the Company to receive variable Euribor interest payments and pay 5.51% fixed interest. The interest rate swap agreement expires in July 2006 and the notional amount amortizes in relation to principal payments on the underlying debt over the life of the swap.

The cumulative effect of a change in accounting principles for the adoption of SFAS No. 133 effective January 1, 2001 resulted in a transition adjustment net loss of \$98,000 which is net of an income tax benefit of \$112,000 and the related minority interest impact of \$84,000. The interest rate swap does not qualify for hedge accounting since the Company has not designated the interest rate swap as a hedging instrument; therefore, the transition adjustment for adoption of SFAS No. 133 and any subsequent periodic changes in fair value of the interest rate swap are recorded in earnings.

As of March 31, 2001, the fair value of the swap is a loss of approximately \$342,000 which is recorded in other noncurrent liabilities. The change in fair value during the three-month period ended March 31, 2001 was a loss of approximately \$48,000 which has been included as a component of other income.

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The impact of recording the interest rate swap and the reclass of short-term financing on the Company's March 31, 2001 financial statements is as follows:

(in thousands, except per share information):

| Consolidated Balance Sheets | As Previously Reported | As Restated | |
|--|---------------------------|-------------|-------------|
| Current assets | \$ 72,973 | \$ 73,103 | |
| Total assets | 209,197 | 209,327 | |
| Current liabilities | 66,370 | 46,978 | |
| Total liabilities | 146,995 | 147,239 | |
| Stockholders' equity | 62,202 | 62,088 | |
| Total liabilities and stockholders' equity | 209,197 | 209,327 | |
| | | | |
| Consolidated Statements of Income and Comprehensive Income | As Previously Reported | As Restated | As Restated |
| Income from operations | | \$ 4,719 | \$ 4,719 |
| Other income | | (180) | (132) |
| Income before provision for income taxes | | 3,766 | 3,718 |
| Provision for income taxes | | 1,654 | 1,636 |
| Minority interest in consolidated subsidiary | | 550 | 536 |
| Cumulative effect of change in accounting principle, net of income tax benefit of | | | |

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| | | |
|--|-----------|-----------|
| \$112 and related minority interest of \$84 | -- | 98 |
| Net income | 1,562 | 1,448 |
| Comprehensive loss | \$(1,824) | \$(1,938) |
| Basic income per share: | | |
| Before cumulative effect of change in accounting principle | \$0.10 | \$0.10 |
| Cumulative effect of change in accounting principle | -- | -- |
| Net income | \$0.10 | \$0.10 |
| Diluted earnings per share: | | |
| Before cumulative effect of change in accounting principle | \$0.10 | \$0.10 |
| Cumulative effect of change in accounting principle | -- | (0.01) |
| Net income | \$0.10 | \$0.09 |

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Note 3. Inventories

Inventories are stated at the lower of cost or market, with cost being determined by the first-in, first-out method.

Inventories are comprised of the following (in thousands):

| | March 31, 2001 (Unaudited) | December 31, 2000 |
|------------------------|----------------------------------|----------------------|
| Raw materials | \$ 5,154 | \$ 4,431 |
| Work in process | 5,442 | 5,265 |
| Finished goods | 13,572 | 14,106 |
| Less inventory reserve | 60 | 60 |
| | \$24,086 | \$ 23,742 |

Note 4. Net Income Per Share

Thousands of Dollars, Except Share and Per Share Data

| | |
|-------------------------------------|--|
| Net income | |
| Adjustments to net income | |
| Net income | |
| Weighted average shares outstanding | |
| Effect of dilutive stock options | |

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Dilutive shares outstanding
 Basic net income per share
 Diluted net income per share

 =====
 =====
 =====

Excluded from the shares outstanding at March 31, 2001 were 10,750 antidilutive options to purchase common shares at an exercise price of \$9.75 to \$11.50. Excluded from shares outstanding at March 31, 2000 were 12,750 antidilutive options to purchase common shares at an exercise price of \$9.75 to \$12.50.

Note 5. Segment Information

During 2001, the Company's reportable segments are based on differences in product lines and geographic locations and are divided between balls and rollers, European operations ("Euroball") and plastics. The ball and roller segment comprises three manufacturing facilities in the eastern United States. The Euroball segment acquired in July 2000, comprises manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany and Pinerolo, Italy. All of the facilities in the ball and roller and Euroball segments are engaged in the production of precision balls and rollers used primarily in the bearing industry. The plastics segment is comprised of the Industrial Molding Corporation ("IMC") business, located in Lubbock, Texas, which was acquired in July 1999 and the Delta Rubber Company ("Delta") business, located in Danielson, Connecticut, which was acquired in February 2001. IMC is engaged in the production of plastic injection molded products for the bearing, automotive, instrumentation, fiber optic and consumer hardware markets. Delta is engaged in the production of engineered bearing seals and other precision-molded rubber products to original equipment manufacturers.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's December 31, 2000 Form 10-K. The Company evaluates segment performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses. The Company accounts for intersegment sales and transfers at current market prices; however, the Company did not have any material intersegment transactions during the three month periods ended March 31, 2001 and 2000.

| Thousands of Dollars | Ball & Roller | Three Months March 31, 2001 | | | Three Months March 31, 2000 | |
|----------------------------------|---------------|-----------------------------------|----------|---------------|-----------------------------------|----|
| | | Euroball | Plastics | Ball & Roller | Euroball | |
| Revenues from external customers | \$ 15,799 | \$ 25,337 | \$ 9,091 | \$ 19,125 | | \$ |
| Segment pre-tax profit | | | | | | |

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| | | | | |
|----------------|--------|--------|--------|--------|
| (loss) | 1,546 | 2,658 | (486) | 2,815 |
| Segment assets | 62,468 | 86,955 | 59,904 | 61,673 |

Note 6. Acquisitions and Joint Ventures

On February 16, 2001, the Company completed the acquisition of all of the outstanding stock of The Delta Rubber Company, a Connecticut corporation ("Delta") for \$22.5 million in cash, of which \$500,000 is to be held in escrow for one year from the date of closing. Delta provides high quality engineered bearing seals and other precision-molded rubber products to original equipment manufacturers. NN plans to continue the operation of the Delta business, which operates a manufacturing facility in Danielson, Connecticut. AmSouth Bank provided financing for the transaction.

On March 16, 2000, the Company entered into a 50/50 joint venture with General Bearing Corporation called NN General LLC ("NN General"), which owns a 60% position in Jiangsu General Ball & Roller Company, Ltd. ("JGBR"), a Chinese precision ball and roller manufacturer located in Rugao City, Jiangsu Province, China. The Company's investment includes a cash loan of \$3.4 million. The remaining 40% of the Chinese company is owned by Jiangsu Steel Ball Factory.

On July 31, 2000, the Company formed a majority owned stand-alone company in Europe, NN Euroball ApS ("Euroball"), for the manufacture and sale of chrome steel balls used for ball bearings and other products. The Company owns 54% of Euroball. AB SKF ("SKF") and FAG Kugelfischer Georg Shafer AG ("FAG") each own 23%. As part of the transaction, Euroball acquired the ball factories located in Pinerolo, Italy (previously owned by SKF), Eltmann, Germany (previously owned by FAG), and Kilkenny, Ireland (previously owned by the Company). Acquisition financing of approximately 31.5 million Euro (approximately \$29.7 million) was drawn at closing, and the credit facility provides for additional working capital expenditure financing. The Company is required to consolidate Euroball due to its ability to exercise control over its operations and has accounted for the acquisitions of the Pinerolo, Italy and Eltmann, Germany ball factories using the purchase method of accounting. Goodwill arising from this acquisition is being amortized on a straight-line basis over 20 years.

On August 31, 2000, the Company acquired a 51% ownership interest in NN Mexico, LLC ("NN Mexico"), a Delaware limited liability company. NN Mexico holds as its sole investment a 100% ownership interest in NN Arte, a manufacturer of plastic components located in Guadalajara, Mexico. To acquire its 51% ownership of NN Mexico, the Company made an initial contribution of \$879,000, an additional contribution of \$671,000, and is obligated to provide additional funding of \$600,000 payable upon certain performance conditions at NN Arte. The Company is required to consolidate NN Mexico due to its ability to exercise control over NN Arte's operations and has accounted for this acquisition using the purchase method of accounting.

Note 7. Fire

On March 12, 2000, the Company experienced a fire at its Erwin, Tennessee facility. The fire was contained to approximately 30% of the production area and did not result in serious injury to any employee. Effected production was shifted to the Company's other facilities as possible as well as the use of other suppliers to protect product supply to customers. Insurance coverage for the loss provides for the reimbursement of replacement value of property and equipment damaged in the fire. At March 31, 2001 the Company is in the process of settling the insurance claim. A net loss of \$25,000 was recorded during the quarter ended March 31, 2000. No gain or loss was recorded during the quarter ended March 31, 2001.

Note 8. Subsequent Event

On July 20, 2001, the Company entered into a syndicated loan agreement with AmSouth Bank ("AmSouth") as the administrative agent for the lenders, for a senior non-secured revolving credit facility of up to \$25 million, expiring on July 25, 2003 and a senior non-secured term loan for \$35 million expiring on July 1, 2006. This credit facility replaces the \$25 million revolving credit facility that was temporarily extended and restated in February of 2001 to \$50 million and the additional \$2 million of availability extended in March of 2001. Amounts outstanding under the revolving facility and the term loan facility bear interest at a floating rate equal to LIBOR plus an applicable margin between 0.75% to 2.00% based upon calculated financial ratios. The loan agreement contains customary financial and non-financial covenants.

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

Results of Operations

Net Sales. Net sales increased by approximately \$22.2 million, or 79.3%, from \$28.0 million for the first quarter of 2000 to \$50.2 million for the first quarter of 2001. The formation of Euroball in July of 2000 contributed \$22.6 of the increase, excluding the first quarter sales of the Ireland facility, which was consolidated into the results of the Company prior to the formation of Euroball. The Company's acquisition of the Delta Rubber Company on February 16, 2001 contributed \$2.2 million of the increase. Offsetting these increases was decreased sales of \$2.0 million for IMC and \$900,000 at the domestic ball and roller facilities.

Gross Profit. Gross profit increased \$4.4 million, or 57.1%, from \$7.7 million for the first quarter of 2000 to \$12.0 million for the first quarter of 2001. Excluding the Ireland facility's first quarter, Euroball contributed \$5.5 million of the increase. The Delta acquisition contributed \$511,000. Offsetting these increases were decreased gross profits of \$600,000 and \$1.1 million at the domestic ball and roller facility and the IMC facility. As a percentage of net sales, gross profit decreased from 27.3% in the first quarter of 2000 to 24.0 % for the same period in 2001. The decrease in gross profit as a percentage of sales was due to inventory reductions at the domestic ball and roller facilities as well as related margin decline due to soft economic conditions.

Selling, General and Administrative. Selling, general and administrative expenses increased \$1.7 million from \$2.3 million for the first quarter of 2000 to \$4.0 million in 2001. The Euroball segment, excluding the Ireland facility, accounted for \$1.5 million of the increase. The acquisition of Delta accounted for the remaining \$170,000 of the increase. As a percentage of net sales, selling, general and administrative expenses decreased slightly from 8.3% in the first quarter of 2000 to 8.0% for the first quarter of 2001.

Depreciation and Amortization. Depreciation and amortization expense increased from \$1.8 million or 79.4% for the first quarter of 2000 to \$3.3 million for the same period in 2001. The Euroball segment accounted for \$1.2 million of the increase. The Delta acquisition accounted for approximately \$150,000 of the increase. The remainder of the increase was due primarily to purchases of capital equipment at the Company's domestic ball and roller facilities. As a percentage of net sales, depreciation and amortization expense remained at 6.6% for first quarters of 2000 and 2001.

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Interest Expense. Interest expense increased by \$891,000 from \$291,000 in the first quarter of 2000 to \$1.2 million during the same period in 2001. Interest expense incurred by Euroball to finance the joint venture transaction accounted for \$531,000 of the increase. The remainder of the increase was due to increased amounts outstanding under the Company's line of credit in the first quarter of 2001. In February of 2001, the Company borrowed \$22.5 million under the line of credit for the purchase of the Delta Rubber Company. As a percentage of net sales, interest expense increased from 1.0% in the first quarter of 2000 to 2.5% for the same period in 2001.

Equity in Earnings of Unconsolidated Affiliates. Equity in earnings of unconsolidated affiliates increased \$36,000 from \$13,000 in the first quarter of 2000 to \$49,000 during the same period of 2001. The increase is due to the Company's share of earnings from the NN General joint venture with General Bearing Corporation. Earnings from this venture were offset by losses incurred from the start-up of NN Asia, a joint venture formed to market products produced by NN General.

Net loss on Involuntary Conversion. The Company recorded a net loss of \$25,000 on loss on involuntary conversion in the first quarter of 2000 related to the March 12, 2000 fire at the Erwin Tennessee ball and roller facility.

Minority Interest in Consolidated Subsidiary. Minority interest in consolidated subsidiary increased \$536,000 from \$0 in the first quarter of 2000 to \$536,000 in the first quarter of 2001. This increase is due to minority interest of \$665,000 recorded for the Euroball transaction and (\$129,000) recorded for NN Arte. The Company is required to consolidate Euroball and NN Arte due to its ability to exercise control over the operations. The Company owns 54% and 51% respectively of Euroball and NN Arte with the minority shareholders owning the remaining 46% and 49% respectively.

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Net Income. Net income decreased from \$2.1 million for the first quarter of 2000 to \$1.4 million for the same period in 2001. As a percentage of net sales, net income decreased from 7.5% in the first quarter of 2000 to 2.9% for the first quarter of 2001. This decrease in net income as a percentage of net sales was due primarily to decreased gross profits as a percentage of sales, increased interest expense associated with the Company's acquisitions, minority interest recorded, and the cumulative effect of change in accounting principle.

Liquidity and Capital Resources

In July 1997, the Company entered into a loan agreement with First American National Bank ("First American") which provides for a revolving credit facility of up to \$25 million, expiring on June 30, 2000. In July 2000, the Company extended the terms of the loan agreement with First American to expire on October 30, 2001. Amounts outstanding under the revolving facility are unsecured and bear interest at a floating rate equal to, at the Company's option, either LIBOR plus 0.65% or the Fed Funds effective rate plus 1.5%. In August 2000, the Company entered into an agreement, which provided an additional \$2 million of availability to the revolving credit facility through December 31, 2000. The loan agreement contains customary financial and operating restrictions on the Company, including covenants, restricting the Company, without First American's consent, from incurring additional indebtedness from, or pledging any of its assets to, other lenders and from disposing of a substantial portion of its assets. In addition, the Company is prohibited from declaring any dividend if a default exists under the

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revolving credit facility at the time of, or would occur as a result of, such declaration. The loan agreement also prohibits sales of property outside of the ordinary course of business. The loan agreement also contains customary financial covenants with respect to the Company, including a covenant that the Company's earnings will not decrease in any year by more than fifty percent of earnings in the Company's immediately preceding fiscal year. In February of 2001, the Company extended and restated the \$25 million revolving credit facility with AmSouth Bank to temporarily increase the facility to \$50 million. The facility is planned to be reduced to \$25 million on June 30, 2001 in anticipation of the Company structuring long-term financing arrangements for this amount. The original \$25 million revolving credit facility will expire on July 25, 2003. In February 2001, the Company drew \$23 million against the new line to finance the acquisition of Delta. Amounts outstanding under the amended revolving facility are unsecured and bear interest at a floating rate equal to LIBOR plus an applicable margin of between 0.65% and 2.15% based upon calculated financial ratios. The loan contains various restrictive financial and non-financial covenants. The Company, as of March 31, 2001, was in compliance with all such covenants.

On March 1, 2001, the Company entered into an agreement with AmSouth Bank which provides an additional \$2 million of availability to the revolving credit facility through June 1, 2001. At March 31, 2001, the Company had no amounts outstanding under this agreement.

In July 2000, NN Euroball ApS, and its subsidiaries entered into a loan agreement with HypoVereinsbank Luxembourg S.A. as agent for Bayerische Hypo-und Vereinsbank AG of Munich, Germany for a senior secured revolving credit facility of Euro 5,000,000, expiring on July 15, 2006 and a senior secured term loan of Euro 36,000,000, expiring on July 15, 2006. On July 31, 2000, upon closing of the joint venture, NN Euroball ApS borrowed a total of Euro 31,500,000 against these facilities for acquisition financing. Additional working capital and capital expenditure financing are provided for under the facility. Amounts outstanding under the facilities accrue interest at a floating rate equal to EURIBOR plus an applicable margin of between 1.125% to 2.25% based upon calculated financial ratios. Additionally, the Company has an interest rate swap that fixes the interest for 12.5 million Euros outstanding under the facilities at 5.51%. The interest rate swap agreement expires in July 2006 and the notional amount amortizes in relation to principal payments on the underlying debt over the life of the swap. The loan agreement contains various restrictive financial and non financial covenants. The Company, as of March 31, 2001, was in compliance with all such covenants.

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The Company's arrangements with its domestic customers typically provide that payments are due within 30 days following the date of the Company's shipment of goods, while arrangements with foreign customers (other than foreign customers that have entered into an inventory management program with the Company) generally provide that payments are due within either 90 or 120 days following the date of shipment. Under the Company's inventory management program, payments typically are due within 30 days after the product is used by the customer. The Company's net sales historically have not been of a seasonal nature. However, seasonality has become a factor for the foreign ball and roller sales in that many foreign customers cease production during the month of August. The Company also experiences seasonal fluctuation through its plastics division which provides several lines of seasonal hardware.

The Company bills and receives payment from some of its foreign customers in their local currency. To date, the Company has not been materially adversely

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affected by currency fluctuations or foreign exchange restrictions. Nonetheless, as a result of these sales, the Company's foreign exchange risk has increased. Various strategies to manage this risk are under development and implementation, including a hedging program. In addition, a strengthening of the U.S. dollar against foreign currencies could impair the ability of the Company to compete with international competitors for foreign as well as domestic sales.

Working capital, which consists principally of accounts receivable and inventories, was \$26.1 million at March 31, 2001 as compared to \$28.2 million at December 31, 2000. The ratio of current assets to current liabilities decreased from 1.79:1 at December 31, 2000 to 1.56:1 at March 31, 2001. Cash flow from operations increased from \$5.0 million during the first quarter of 2000 to \$6.6 million during the same period in 2001.

During 2001, the Company plans to spend approximately \$5.3 million on capital expenditures of which approximately \$1.1 million has been spent through March 31, 2001. The Company intends to finance these activities with cash generated from operations and funds available under the credit facility described above. The Company believes that funds generated from operations and borrowings from the credit facility will be sufficient to finance the Company's working capital needs and projected capital expenditure requirements through December 2001.

The Euro

The treaty on European Union provided that an economic and monetary union be established in Europe whereby a single European currency, the Euro, was introduced to replace the currencies of participating member states. The Euro was introduced on January 1, 1999, at which time the value of participating member state currencies were irrevocably fixed against the Euro and the European Currency Unit. For the three year transitional period ending December 31, 2001, the national currencies of member states will continue to circulate but be in sub-units of the Euro. At the end of the transitional period, Euro bank notes and coins will be issued, and the national currencies of the member states will be legal tender no later than June 30, 2002.

The Company currently has operations in Italy, Germany and Ireland, all of which are Euro participating countries, and sells product to customers in many of the participating countries. The Euro has been adopted as the functional currency at these locations.

Seasonality and Fluctuation in Quarterly Results

The Company's net sales historically have not been of a seasonal nature. However, as foreign sales have increased as a percentage of total sales, seasonality has become a factor for the Company in that many foreign customers cease production during the month of August.

Inflation and Changes in Prices

While the Company's operations have not been affected by inflation during recent years, prices for 52100 Steel and other raw materials purchased by the Company are subject to change. For example, during 1995, due to an increase in worldwide demand for 52100 Steel and the decrease in the value of the United States dollar relative to foreign currencies, the Company experienced an increase in the price of 52100 Steel and some difficulty in obtaining an adequate supply of 52100 Steel from its existing suppliers. Typically, the

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Company's pricing arrangements with its steel suppliers are subject to adjustment once every six months. In an effort to limit its exposure to fluctuations in steel prices, the Company has generally avoided the use of long-term, fixed price contracts with its customers. Instead, the Company typically reserves the right to increase product prices periodically in the event of increases in its raw material costs. The Company was able to minimize the impact on its operations resulting from the 52100 Steel price increases by taking such measures.

Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

The Company wishes to caution readers that this report contains, and future filings by the Company, press releases and oral statements made by the Company's authorized representatives may contain, forward-looking statements that involve certain risks and uncertainties. Readers can identify these forward-looking statements by the use of such verbs as expects, anticipates, believes or similar verbs or conjugations of such verbs. The Company's actual results could differ materially from those expressed in such forward-looking statements due to important factors bearing on the Company's business, many of which already have been discussed in this filing and in the Company's prior filings. The differences could be caused by a number of factors or combination of factors including, but not limited to, the risk factors described below. Readers are strongly encouraged to consider these factors when evaluating any such forward-looking statement.

The following paragraphs discuss the risk factors the Company regards as the most significant, although the Company wishes to caution that other factors that are currently not considered as significant or that currently cannot be foreseen may in the future prove to be important in affecting the Company's results of operations. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Industry Risks. Both the precision ball and roller and precision plastics industries are cyclical and tend to decline in response to overall declines in industrial production. The Company's sales in the past have been negatively affected, and in the future very likely would be negatively affected, by adverse conditions in the industrial production sector of the economy or by adverse global or national economic conditions generally.

Competition. The precision ball and roller market and the precision plastics market are highly competitive, and many of the manufacturers in each of the markets are larger and have substantially greater resources than the Company. The Company's competitors are continuously exploring and implementing improvements in technology and manufacturing processes in order to improve product quality, and the Company's ability to remain competitive will depend, among other things, on whether it is able, in a cost effective manner, to keep pace with such quality improvements. In addition, the Company competes with many of its ball and roller customers that, in addition to producing bearings, also internally produce balls and rollers for sale to third parties. The Company faces a risk that its customers will decide to produce balls and rollers internally rather than outsourcing their needs to the Company.

Rapid Growth. The Company has significantly expanded its ball and roller production facilities and capacity over the last several years. During 1997, the Company purchased an additional manufacturing plant in Kilkenny, Ireland. The Company continued this expansion in 2000 through its 54% ownership of the NN Euroball joint venture with SKF and FAG. In addition, the Company invested in Jiangsu General Ball & Roller Company, a Chinese joint venture specializing in various types of ball production. The

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Company's Ball & Roller Division currently is not operating at full capacity and faces risks of further under-utilization or inefficient utilization of its production facilities in future years. The Company also faces risks associated with start-up expenses, inefficiencies, delays and increased depreciation costs associated with these joint ventures and expansions.

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Raw Material Shortages. Because the balls and rollers manufactured by the Company have highly-specialized applications, their production requires the use of very particular types of steel. Due to quality constraints, the Company obtains the majority of its steel from overseas suppliers. Steel shortages or transportation problems, particularly with respect to 52100 Steel, could have a detrimental effect on the Company's business.

Risks Associated with International Trade. Because the Company (a) obtains a majority of its raw materials for the manufacture of balls and rollers from overseas suppliers, (b) now actively participates in overseas manufacturing operations and (c) sells to a large number of international customers, the Company faces risks associated with (i) adverse foreign currency fluctuations, (ii) changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations, (iii) the imposition of trade restrictions or prohibitions, (iv) the imposition of import or other duties or taxes, and (v) unstable governments or legal systems in countries in which the Company's suppliers, manufacturing operations, and customers are located. An increase in the value of the United States dollar relative to foreign currencies adversely affects the ability of the Company to compete with its foreign-based competitors for international as well as domestic sales.

Dependence on Major Customers. During 2000, the Company's ten largest customers accounted for approximately 69% of its net sales. Sales to various US and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 32% of net sales in 2000, and sales to FAG accounted for approximately 17% of net sales. None of the Company's other customers accounted for more than 5% of its net sales in 2000. The loss of all or a substantial portion of sales to these customers would have a material adverse effect on the Company's business.

Acquisitions. The Company's growth strategy includes growth through acquisitions. In 1999, the Company acquired the IMC businesses as part of that strategy. In 2000, the Company formed the NN Euroball joint venture with SKF and FAG and began operating two new ball manufacturing facilities. In February of 2001, the Company continued to implement this strategy through the acquisition of Delta. Although the Company believes that it will be able to continue to integrate the operations of IMC, NN Euroball, Delta and other companies acquired in the future into its operations without substantial cost, delays or other problems, its ability to do so will depend on, among other things, the adequacy of its implementation plans, the ability of its management to effectively oversee and operate the combined operations of the Company and the acquired businesses and its ability to achieve desired operating efficiencies and sales goals. If the Company is not able to successfully integrate the operations of acquired companies into its business, its future earnings and profitability could be materially and adversely affected.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) On March 1, 2001, the Company filed a Report on Form 8-K to announce the acquisition of the outstanding stock from Delta Rubber Company, a Connecticut corporation,

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SIGNATURES

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.

NN, Inc.

(Registrant)

Date: August 14, 2001

/s/ Roderick R. Baty

Roderick R. Baty, President and
Chief Executive Officer
(Duly Authorized Officer)

Date: August 14, 2001

/s/ David L. Dyckman

David L. Dyckman
Chief Financial Officer and
Vice President
(Principal Financial Officer)
(Duly Authorized Officer)

Date: August 14, 2001

/s/ William C. Kelly, Jr.

William C. Kelly, Jr.,
Treasurer, Assistant Secretary and
Chief Accounting Officer
(Principal Accounting Officer)
(Duly Authorized Officer)

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