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NN INC  
Form 10-Q/A  
January 30, 2004

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

**FORM 10-Q/A**

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

For the quarterly period ended June 30, 2003

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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 13, 2003 there were 16,652,407 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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**NN, Inc.**  
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This Amendment on Form 10-Q/A amends the Registrant's Quarterly Report on Form 10-Q for the three and six month periods ended June 30, 2003 and 2002, and is being filed solely to amend the financial reporting of certain transactions related to the formation of NN Euroball, ApS ("Euroball") on July 31, 2000, and the subsequent purchase on December 20, 2002 of the 23% interest in Euroball held by FAG Kugelfischer George Schaefer AG, which was subsequently acquired by INA - Schaeffler KG (collectively, "INA/FAG") and on May 2, 2003 of the 23% interest in Euroball held by AB SKF ("SKF"). These restatements had no material effect on the Company's reported net sales, gross profit, income from operations or cash flows for the three month and six month periods ended June 30, 2003 and June 30, 2002.

We have revised the valuation of the original purchase price associated with the formation of Euroball in July 2000. This revision resulted in a reduction of goodwill of approximately 4.1 million Euro (\$3.8 million). Further, we have increased stockholders' equity by approximately 10.0 million Euro (\$9.3 million) to reflect the amount by which the Company's proportionate interest in Euroball exceeded the book value of the net assets exchanged by the Company. As a result of these two adjustments, minority interest in consolidated subsidiaries has been reduced by approximately \$7.4 million at December 31, 2002, goodwill has been reduced \$4.7 million and \$4.3 million at June 30, 2003 and December 31, 2002, respectively, and paid-in-capital increased \$9.3 million at June 30, 2003 and December 31, 2002, respectively, from amounts previously reported. Comprehensive income has also been restated for foreign currency translation effects of these adjustments.

In the previously issued December 31, 2002 and June 30, 2003 Consolidated Financial Statements, when the Company acquired the 23% interest in Euroball held by INA/FAG in December 2002 and the 23% interest in Euroball held by SKF in May 2003, the excess of minority interest in consolidated subsidiaries in Euroball over the purchase price was recorded as a non-taxable gain in the amount of approximately \$5.9 million and \$6.6 million, respectively. As restated in the accompanying Consolidated Financial Statements, the non-taxable gains have been excluded and the excess of the purchase price over the fair value of INA/FAG's 23% interest and SKF's 23% interest in the net assets of Euroball was allocated to goodwill. The resulting impact to the Consolidated Financial Statements is an increase to goodwill of approximately \$1.5 million and \$3.7 million, a decrease in retained earnings of approximately \$5.9 million and \$12.5 million as of December 31, 2002 and June 30, 2003, respectively, and reversal of the \$6.6 million gain previously recorded in the Consolidated Financial Statements of Income and Comprehensive Income for the three and six months ended June 30, 2003.

Additionally, the Company has reclassified minority interest in consolidated subsidiaries from a component of total liabilities to a separate line item in the Condensed Consolidated Balance Sheets at June 30, 2003 and December 31, 2002.

Items amended include Item 1 and Item 2. In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, the Registrant is including with this Amendment certain currently dated certifications. Other than those described in Note 1 to the Consolidated Financial Statements, no other material changes have been made to this Quarterly Report on Form 10-Q/A. This Form 10-Q/A does not modify or update the disclosure contained in the Quarterly Report in any way other than as required to reflect the amendments discussed above.

## PART I. FINANCIAL INFORMATION

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

Thousands of Dollars, Except Per Share Data	Three Months Ended June 30,		Si
	Restated 2003	Restated 2002	Resta 200
Net sales	\$ 64,194	\$ 49,186	\$ 12
Cost of goods sold	49,721	36,139	9
Gross profit	14,473	13,047	2
Selling, general and administrative	5,771	4,777	1
Depreciation and amortization	3,482	2,767	
Restructuring and impairment costs	2,723	--	
Income from operations	2,497	5,503	
Interest expense, net	759	609	
Other (income) expense	389	(141)	
Income before provision for income taxes	1,349	5,035	
Provision for income taxes	512	1,840	
Minority interest in consolidated subsidiaries	140	787	
Net income	697	2,408	
Other comprehensive income:			
Foreign currency translation	2,370	2,574	
Comprehensive income	\$ 3,067	\$ 4,982	\$
Basic income per common share:	\$ 0.04	\$ 0.16	\$
Weighted average shares outstanding	16,015	15,359	1
Diluted income per common share:	\$ 0.04	\$ 0.15	\$
Weighted average shares outstanding	16,465	15,868	1

See accompanying notes.

**NN, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

<b>Thousands of Dollars</b>	<b>Restated June 30, 2003</b>	<b>Rest Decem 2</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,641	
Accounts receivable, net	44,542	
Inventories, net	33,825	
Other current assets	6,779	
Total current assets	89,787	
Property, plant and equipment, net	105,007	
Assets held for sale	1,805	
Goodwill, net	52,653	
Other assets	4,602	
Total assets	\$ 253,854	\$
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$33,826	
Bank overdraft	2,813	
Accrued salaries and wages	11,608	
Income taxes payable	1,019	
Current maturities of long-term debt	9,066	
Other current liabilities	4,399	
Total current liabilities	62,731	
Non-current deferred tax liability	9,688	
Long-term debt	75,344	
Accrued pension and other	10,130	
Total liabilities	157,893	
Minority interest in consolidated subsidiaries	--	
Total stockholders' equity	95,961	
Total liabilities and stockholders' equity	\$253,854	\$

See accompanying notes.

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

**Common Stock**

Thousands of Dollars and Shares	Number Of Shares	Par value	Additional paid in capital	Retained Earnings
Balance, January 1, 2002, Restated	15,317	\$154	\$ 40,111	\$ 36,1
Shares issued	50	--	329	
Net income	--	--	--	4,2
Dividends declared	--	--	--	(2,45
Other comprehensive income	--	--	--	
Balance, June 30, 2002, Restated	15,367	\$154	\$ 40,440	\$ 37,9
Balance, January 1, 2003, Restated	15,370	\$154	\$ 40,457	\$ 38,9
Shares issued	1,280	13	12,093	
Net income	--	--	--	4,3
Dividends declared	--	--	--	(2,56
Other comprehensive income	--	--	--	
Balance, June 30, 2003, Restated	16,650	\$167	\$ 52,550	\$ 40,7

See accompanying notes.

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

Thousands of Dollars	Six Month June Restated 2003
<b>Operating Activities:</b>	
Net income	\$ 4,340
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	6,560
(Gain) loss on disposals of property, plant and equipment	--
Minority interest in consolidated subsidiary	675
Restructuring and impairment costs	3,047
Changes in operating assets and liabilities:	
Accounts receivable	(14,043)
Inventories	(3,717)

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Other current assets	(1,352)
Other assets	(3,216)
Accounts payable	11,030
Income taxes payable	1,019
Other liabilities	(645)
	-----
Net cash provided by operating activities	3,698
	-----
<b>Investing Activities:</b>	
Acquisition of Veenendaal, The Netherlands	(17,777)
Purchase of minority interest	(15,583)
Acquisition of property, plant, and equipment	(4,333)
Proceeds from disposals of property, plant and equipment	--
	-----
Net cash used by investing activities	(37,693)
	-----
<b>Financing Activities:</b>	
Proceeds from long-term debt	89,560
Bank overdraft	363
Repayment of long-term debt	(59,408)
Repayment of short-term debt	--
Proceeds from issuance of stock	5,168
Dividends paid	(2,562)
	-----
Net cash provided (used) by financing activities	33,121
	-----
Effect of exchange rate changes	371
<b>Net Change in Cash and Cash Equivalents</b>	(503)
<b>Cash and Cash Equivalents at Beginning of Period</b>	5,144
	-----
<b>Cash and Cash Equivalents at End of Period</b>	\$ 4,641
	=====
Supplemental schedule of non-cash investing and financing activities:	
Stock issued related to acquisition of Veenendaal	\$ 6,937
	=====

See accompanying notes.

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NN, Inc.  
Notes To Consolidated Financial Statements  
(unaudited)

**Note 1. Restatement**

The Company has restated its Consolidated Financial Statements for the three and six month periods ended June 30, 2003 and 2002 solely to amend the financial reporting of certain transactions related to the formation of Euroball on July 31, 2000 and the subsequent purchases of the minority interests held by INA/FAG and SKF on December 20, 2002 and May 2, 2003, respectively. These restatements had no material effect on the Company's reported net sales, gross profit, income from operations, or cash flows for the three and six month periods ended June

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30, 2003 and June 30, 2002.

We have revised the valuation of the original purchase price associated with the formation of Euroball in July 2000. This revision resulted in a reduction of goodwill of approximately 4,108 Euro (\$3,792). Further, we have increased stockholders' equity by approximately 10,044 Euro (\$9,270) to reflect the amount by which the Company's proportionate interest in Euroball exceeded the book value of the net assets exchanged by the Company. As a result of these two adjustments, minority interest in consolidated subsidiaries has been reduced by approximately \$7,421 at December 31, 2002, goodwill has been reduced \$4,695 and \$4,308 at June 30, 2003 and December 31, 2002, respectively, and paid-in-capital increased \$9,270 at June 30, 2003 and December 31, 2002, respectively, from amounts previously reported. Comprehensive income has also been restated for foreign currency translation effects of these adjustments.

In the previously issued December 31, 2002 and June 30, 2003 Consolidated Financial Statements, when the Company acquired the 23% interest in Euroball held by INA/FAG in December 2002 and the 23% interest in Euroball held by SKF in May 2003, the excess of minority interest in consolidated subsidiaries in Euroball over the purchase price was recorded as a non-taxable gain in the amount of approximately \$5,904 and \$6,600, respectively. As restated in the accompanying Consolidated Financial Statements, the non-taxable gains have been excluded and the excess of the purchase price over the fair value of INA/FAG's 23% and SKF's 23% interest in the net assets of Euroball was allocated to goodwill. The resulting impact to the Consolidated Financial Statements is an increase to goodwill of approximately \$1,517 and \$3,667, a decrease in retained earnings of approximately \$5,904 and \$12,504 as of December 31, 2002 and June 30, 2003, respectively, and reversal of the \$6,600 gain previously recorded in the Consolidated Financial Statements of Income and Comprehensive Income for the three and six months ended June 30, 2003.

Additionally, the Company has reclassified minority interest in consolidated subsidiaries from a component of total liabilities to a separate line item in the Condensed Consolidated Balance Sheets at June 30, 2003 and December 31, 2002.

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**Effect on selected Consolidated Financial Statement Data at June 30, 2003 and June 30, 2002 and for the three and six month periods then ended.**

**Selected Consolidated Balance Sheet Data  
June 30, 2003  
(In thousands)**

	As Previously Reported	As Restated
	-----	-----
Goodwill	\$ 53,681	\$ 52,653
Total assets	254,882	253,854
Additional paid-in capital	43,280	52,550
Retained earnings	53,266	40,762
Accumulated other comprehensive income	276	2,482
Total stockholders' equity	96,989	95,961
Total liabilities and stockholders' equity	254,882	253,854

**Selected Consolidated Balance Sheet Data**



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December 31, 2002

(In thousands)

	As Previously Reported	As Restated
	-----	-----
Goodwill	\$ 42,166	\$ 39,37
Total assets	198,007	195,21
Total liabilities	124,728	105,02
Minority interest in consolidated subsidiaries	19,706	12,28
Additional paid-in capital	31,187	40,45
Retained earnings	44,888	38,98
Accumulated other comprehensive loss	(2,950)	(1,687)
Total stockholders' equity	73,279	77,90
Total liabilities and stockholders' equity	198,007	195,21

**Selected Consolidated Statement of Income and Comprehensive Income Data**

**Three months ended June 30, 2003**

**(In thousands, except per share data)**

	As Previously Reported	As Restated
	-----	-----
Gain on purchase of minority interest	\$ (6,600)	\$
Income before provision for income taxes	7,949	1,
Net income	7,297	2,
Foreign currency translation	1,837	3,
Comprehensive income	9,134	0
Basic income per share	0.46	0
Diluted income per share	0.44	0

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**Three months ended June 30, 2002**

**(In thousands)**

	As Previously Reported	As Amended
	-----	-----
Foreign currency translation	\$1,413	\$2,
Comprehensive income	3,821	4,

**Six months ended June 30, 2003**

**(In thousands, except per share data)**

	As Previously Reported	As Amended
	-----	-----
Gain on purchase of minority interest	\$ (6,600)	\$
Income before provision for income taxes	14,600	8,
Net income	10,940	4,
Foreign currency translation	3,226	4,
Comprehensive income	14,166	8,
Basic income per share	0.70	0
Diluted income per share	0.69	0

**Six months ended June 30, 2002**

**(In thousands)**

As Previously Reported	As Amended
-----	-----

Foreign currency translation	\$1,333	\$2,
Comprehensive income	5,591	6,

**Note 2. Interim Financial Statements**

The accompanying consolidated financial statements of NN, Inc. (the "Company") have not been audited by independent accountants, except that the balance sheet at December 31, 2002 is derived from the Company's audited financial statements. 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 and six month periods ended June 30, 2003 and 2002, the Company's financial position at June 30, 2003 and December 31, 2002, and the cash flows for the six month periods ended June 30, 2003 and 2002. 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. As used in this Quarterly Report on Form 10-Q/A, the terms "NN", "the Company", "we", "our", or "us" mean NN, Inc. and its subsidiaries.

Certain information and footnote disclosures normally included in the 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/A, as amended. These Condensed, Consolidated, Unaudited Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and the Notes thereto included in our most recent report on Form 10-K/A, as amended, which we filed with the Commission on January 30, 2004.

The results for the first and second quarters of 2003 are not necessarily indicative of future results.

Certain 2002 amounts have been reclassified to conform with the 2003 presentation.

**Note 3. Derivative Financial Instruments**

We have an interest rate swap 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 adopted SFAS No. 133 on January 1, 2001, 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, our 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 its 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 initially established principal payments on the underlying debt over the life of the swap. This original debt was repaid in May

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2003, however, the swap remains pursuant to its original terms.

As of June 30, 2003, the fair value of the swap was approximately \$522,000, which is recorded in other non-current liabilities. The change in fair value during the six month period ended June 30, 2003 and 2002 was a loss of approximately \$128,000 and a gain of approximately \$97,000, respectively, which have been included as a component of other (income) expense.

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**Note 4. Inventories**

Inventories are stated at the lower of cost or market. Cost is being determined using the first-in, first-out method.

Inventories are comprised of the following (in thousands):

	<b>June 30, 2003 (Unaudited)</b>
	-----
Raw materials	\$ 7,363
Work in process	7,132
Finished goods	19,587
Less inventory reserves	(257)
	-----
	\$ 33,825
	=====

Inventories on consignment at customer locations as of June 30, 2003 and December 31, 2002 were \$2,344 and \$3,093, respectively.

**Note 5. Net Income Per Share (Restated)**

<b>Thousands of Dollars, Except Share and Per Share Data</b>	<b>Three Months Ended June 30,</b>		<b>Res 2</b>
	<b>Restated 2003</b>	<b>2002</b>	
-----	-----	-----	-----
Net income	\$697	\$2,408	\$
Adjustments to net income	--	--	
	-----	-----	-----
Net income	\$697	\$2,408	\$
	=====	=====	=====
Weighted average basic shares	16,015,347	15,359,173	15,56
Effect of dilutive stock options	449,466	508,815	33
	-----	-----	-----
Weighted average dilutive shares outstanding	16,464,813	15,867,988	15,89
	=====	=====	=====
Basic net income per share	\$0.04	\$0.16	
	=====	=====	=====
Diluted net income per share	\$0.04	\$0.15	
	=====	=====	=====

Excluded from the shares outstanding for each of the six month periods ended June 30, 2003 and 2002 were 54,000 and 0 antidilutive options, respectively, which had exercise prices ranging from \$10.26 to \$10.67 as of June 30, 2003.

**Note 6. Segment Information (Restated)**

During 2003 and 2002, the Company's reportable segments are based on differences in product lines and geographic locations and are divided among Domestic Ball and Roller, European operations ("NN Europe") and Plastic and Rubber Components. The Domestic Ball and Roller Segment is comprised of two manufacturing facilities in the eastern United States. The NN Europe Segment is comprised of precision ball manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany and Pinerolo, Italy acquired in July 2000 and Veenendaal, The Netherlands ("Veenendaal") a tapered roller and metal cage manufacturing operation acquired in May 2003. See Note 7, "Acquisitions and Joint Ventures". All of the facilities in the Domestic Ball and Roller Segment are engaged in the

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production of precision balls and rollers used primarily in the bearing industry. All of the facilities in the NN Europe Segment are engaged in the production of precision balls used primarily in the bearing industry except for Veenendaal which is engaged in the production of tapered rollers and cages for use primarily in the bearing industry. The Plastic and Rubber Components Segment is comprised of the Industrial Molding Corporation ("IMC") business, located in Lubbock, Texas, which was acquired in July 1999, NN Arte ("Arte") formed in August of 2000 (see Note 7), located in Guadalajara, Mexico and The Delta Rubber Company ("Delta") business, located in Danielson, Connecticut, which was acquired in February 2001. IMC and Arte are engaged in the production of plastic injection molded products for the bearing, automotive, instrumentation, fiber optic and consumer hardware markets. Delta is engaged principally in the production of engineered bearing seals used principally in automotive, industrial, agricultural, mining and aerospace applications. The Plastic and Rubber Components Segment's name has been changed from the Plastics Segment effective with the March 31, 2003 quarterly report on Form 10-Q/A. The businesses and methods of calculation comprising this segment have not changed.

The NN Europe Segment, prior to the filing of this June 30, 2003 quarterly report on Form 10-Q/A and as a result of the acquisition of Veenendaal, was referred to as the Euroball Segment and was comprised only of the manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany, and Pinerolo, Italy.

The accounting policies of each segment are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K/A, as amended, for the fiscal year ended December 31, 2002 including those policies as discussed in Note 2. We evaluate segment performance based on profit or loss from operations before income taxes and minority interest not including nonrecurring gains and losses. We account for inter-segment sales and transfers at current market prices; however, we did not have any material inter-segment transactions during the three or six month periods ended June 30, 2003 and 2002.

Thousands of Dollars	2003		Three Months Ended June 30,	
	Restated Domestic Ball & Roller	Restated NN Europe	Plastic and Rubber Components	Domestic Ball & Roller
Revenues from external customers	\$ 13,925	\$ 38,210	\$ 12,059	\$ 13,721
Segment pretax profit (loss)	399	3,245	(2,295)	1,434

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Segment assets 51,322 146,322 56,210 | 62,552

Thousands of Dollars	2003		Six Months Ended June 30,	
	Restated Domestic Ball & Roller	Restated NN Europe	Plastic and Rubber Components	Domestic Ball & Roller
Revenues from external customers	\$ 28,174	\$ 67,045	\$ 26,584	\$ 26,925
Segment pretax profit	2,379	6,974	(1,353)	2,432
Segment assets	51,322	146,322	56,210	62,552

**Note 7. Acquisitions and Joint Ventures (Restated)**

On December 20, 2002, we acquired the 23 percent interest in NN Euroball, ApS ("Euroball") held by INA/FAG. INA/FAG is a global bearing manufacturer and one of our largest customers. We paid approximately 13.4 million Euros (\$13.8 million) for INA/FAG's interest in Euroball. See Note 1, "Restatement".

On May 2, 2003 we acquired the 23 percent interest in NN Euroball, ApS ("Euroball") held by SKF. We paid approximately 13.8 million Euros (\$15.6 million) for SKF's interest in Euroball. Euroball was formed in 2000 by the Company, FAG Kugelfischer George Shaefer AG, which was subsequently acquired by INA - Schaeffler KG ("INA/FAG"), and AB SKF ("SKF"). Upon consummation of this transaction, we became the sole owner of Euroball. See Note 1, "Restatement".

On May 2, 2003 we acquired 100 percent of the tapered roller and metal cage manufacturing operations of SKF in Veenendaal, The Netherlands. The results of Veenendaal's operations have been included in the consolidated financial statements since that date. We paid consideration of approximately 23.0 million Euros (\$25.7 million) and incurred other costs of approximately \$0.9 million, for the Veenendaal net assets

acquired from SKF. The Veenendaal operation manufactures rollers for tapered roller bearings and metal cages for both tapered roller and spherical roller bearings allowing us to expand our bearing component offering. The results of the Veenendaal operation are included in the NN Europe Segment.

In connection with the acquisition of SKF's Veenendaal, The Netherlands operations, SKF purchased 700,000 shares of our common stock from us for an aggregate fair value of approximately \$6.9 million which was applied to the purchase of SKF's Veenendaal, The Netherlands operations. For purposes of valuing the 700,000 common shares issued in our Consolidated Financial Statements, the value was determined based on the average market price of NN, Inc.'s common shares over the two-day period before, the day of, and the two-day period after the terms of the acquisition were agreed to, April 14, 2003.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price is subject to adjustment due to working capital changes. We are in the process of obtaining third-party valuations of certain tangible and intangible assets; thus, the allocation of the purchase price is subject to refinement.

(In thousands)  
At May 2, 2003

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Current assets	\$ 6,081
Property, plant and equipment	14,747
Goodwill and other intangible assets	11,460
<hr/>	
Total assets acquired	32,288
Current liabilities	5,628
<hr/>	
Net assets acquired	\$ 26,660
<hr/>	

The full amount assigned to goodwill is expected to be deductible for tax purposes.

The following unaudited pro forma summary presents the financial information for the three and six month periods ended June 30, 2003 and 2002 as if our Veenendaal acquisition had occurred as of the beginning of each of the periods presented. These pro forma results have been prepared for comparative purposes and do not purport to be indicative of what would have occurred had the acquisition been made as of the beginning of each of the periods presented, nor are they indicative of future results.

(In thousands, except per share data)

	(Restated) Three months ended June 30, 2003 (unaudited)	(Restated) Six months ended June 30, 2003 (unaudited)
Net sales	\$ 68,841	\$ 140,391
Net income	742	4,521
Basic earnings per share	0.05	0.29
Diluted earnings per share	0.05	0.28

(In thousands, except per share data)

	Three months ended June 30, 2002 (unaudited)	Six months ended June 30, 2002 (unaudited)
Net sales	\$ 63,128	\$ 124,369
Net income	2,543	4,528
Basic earnings per share	0.17	0.29
Diluted earnings per share	0.16	0.29

On April 1, 2003, we exercised our call right and purchased the remaining 49 percent interest in NN Mexico, LLC. Based on the purchase price formula contained in the principal agreement between the parties, the purchase price for such interest was zero.

**Note 8. Restructuring and Impairment Charges**

In May, 2003, we decided to close our Guadalajara, Mexico plastic injection molding facility. This operation was started in September of 2000 to supply

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certain Mexican operations of multi-national manufacturers of office automation equipment. Several of these customers have recently shifted their manufacturing operations to other geographic regions in the world. The closure is expected to be substantially completed during the third quarter of 2003. The financial results of this operation have been included in the Plastic and Rubber Components Segment.

The plant closing is expected to result in the termination of approximately 42 full time hourly and salary employees located at the Guadalajara facility. We have recorded restructuring costs of approximately \$282,000 during the three month period ended June 30, 2003 related to severance payments for the affected employees.

As a result of the closing, we have performed a test of the recoverability of the goodwill asset associated with the Guadalajara, Mexico operation. This test was pursuant to the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" which require that interim tests of the recoverability of goodwill be performed under certain circumstances. As a result, we have recorded an impairment charge of approximately \$1.3 million to fully write-off the goodwill asset.

We have decided to sell substantially all of the machinery and equipment with certain pieces of machinery and equipment to be transferred and utilized by our Industrial Molding facility in Lubbock, Texas. Pursuant to the provisions of Statement of Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets" we have recorded an impairment charge of approximately \$1.1 million to write-down the machinery and equipment to its estimated fair market value.

Additionally, we have recorded impairment charges of \$107,000 and \$324,000 to write-down the accounts receivable and inventory assets to their estimated fair market values, respectively. The \$324,000 inventory write down has been recorded as a component of cost of goods sold.

The amounts we will ultimately realize upon disposition of these assets could differ materially from the amounts assumed in arriving at the impairment losses recorded during the three months ended June 30, 2003.

The following summarizes the 2003 restructuring and impairment charges:

In thousands	Charges	Non-Cash Write-downs	Paid in 2003	A
Asset impairments	\$2,765	\$2,765	\$ --	
Severance and other employee costs	282	--	--	
<b>Total</b>	<b>\$3,047</b>	<b>\$2,765</b>	<b>\$ --</b>	

In September of 2001, we announced that we would close our Walterboro, South Carolina ball manufacturing facility as part of our ongoing strategy to locate manufacturing capacity in closer proximity to customers. The closure was substantially completed by December 31, 2001. Current plans are to sell the land and building. The plant closing resulted in the termination of approximately 80 full time hourly and salaried employees in 2001.

Prior to December 31, 2001, production capacity and certain machinery and equipment were transferred from the Walterboro facility to our two domestic ball facilities in Erwin, Tennessee and Mountain City, Tennessee. We recorded restructuring costs of \$62,000 for additional severance payments during the six months ended June 30, 2002. There were no restructuring costs recorded for the

six months ended June 30, 2003.

Our Euroball subsidiary incurred restructuring charges of \$16,000 for the six months ended June 30, 2002 for additional severance payments as a result of the termination of 15 hourly employees and 3 salaried employees at its Italy production facility. Approximately \$69,000 of the severance payments recorded

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during 2001 and 2002 were paid during the six months ended June 30, 2002 and there are no remaining accrued restructuring costs included in other current liabilities as of June 30, 2002 and June 30, 2003 related to Euroball.

**Note 9. New Accounting Pronouncements**

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (Statement No. 141), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement No. 142). Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather, periodically tested for impairment. The effective date of Statement No. 142 is January 1, 2002. As of the date of adoption, we had unamortized goodwill of approximately \$36.6 million, which is subject to the provisions of Statement No. 142.

As a result of adopting these new standards, our accounting policies for goodwill and other intangibles changed on January 1, 2002, as described below:

**Goodwill:** We recognized the excess of the purchase price of an acquired entity over the fair value of the net identifiable assets as goodwill. Goodwill is tested for impairment on an annual basis and between annual tests in certain circumstances. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. Prior to January 1, 2002, goodwill was amortized over a twenty-year period using the straight-line method. Beginning January 1, 2002, goodwill is no longer amortized.

**Other Acquired Intangibles:** We recognize an acquired intangible asset apart from goodwill whenever the asset arises from contractual or other legal rights, or whenever it is capable of being divided or separated from the acquired entity or sold, transferred, licensed, rented, or exchanged, whether individually or in combination with a related contract, asset or liability. An intangible asset other than goodwill is amortized over its estimated useful life unless that life is determined to be indefinite. We will review the lives of intangible assets each reporting period and, if necessary, recognize impairment losses if the carrying amount of an intangible asset subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

We completed the transitional goodwill impairment reviews required by the new standards during the first six months of 2002 and the annually required goodwill impairment review during the fourth quarter of 2002. In performing the impairment reviews, we estimated the fair values of the reporting units using a method that incorporates valuations derived from earnings before interest expense, taxes, depreciation and amortization ("EBITDA") multiples based upon market multiples and recent capital market transactions and also incorporates



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valuations determined by each segment's discounted future cash flows. As of January 1, 2002, the transition date and as of October 1, 2002, the most recent annual review date, there was no impairment to goodwill as the fair values exceeded the carrying values of the reporting units.

The changes in the carrying amount of goodwill for the six month period ended June 30, 2003 are as follows:

In thousands	Plastic and Rubber Components Segment	(Restated) NN Europe Segment	(Restated) Total
Balance as of January 1, 2003	\$26,712	\$12,662	\$39,374
Goodwill acquired	--	13,875	13,875
Impairment losses	(1,285)	--	(1,285)
Currency impacts	--	689	689
Balance as of June 30, 2003	\$25,427	\$27,226	\$52,653

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In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting For Asset Retirement Obligations." This Statement requires capitalizing any retirement costs as part of the total cost of the related long-lived asset and subsequently allocating the total expense to future periods using a systematic and rational method. Adoption of the Statement is required for fiscal years beginning after June 15, 2002. We adopted SFAS No. 143 on January 1, 2003 and this adoption did not have a material impact on the financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 4 had required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 rescinds SFAS No. 4 and the related required classifications gains and losses from extinguishment of debt as extraordinary items. Additionally, the SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is applicable for us at the beginning of fiscal year 2003, with the provisions related to SFAS No. 13 for transactions occurring after May 15, 2002. We adopted SFAS No. 145 effective January 1, 2003 and this adoption did not have a material impact on the financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires costs associated with exit or disposal activities to be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148, which was effective for the year ending December 31, 2002, amends the disclosures in both annual and interim financial

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statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have adopted the provisions of SFAS 123, which encourages but does not require a fair value based method of accounting for stock compensation plans. We have elected to continue accounting for its stock compensation plan using the intrinsic value based method under Auditing Practices Board ("APB") Opinion No. 25 and, accordingly, has not recorded compensation expense for each of the three and six month periods ended June 30, 2003 and June 30, 2002,. Had compensation cost for our stock compensation plan been determined based on the fair value at the option grant dates, our net income and earnings per share would have been reduced to the proforma amounts indicated below:

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**In Thousands, Except per Shared Data**  
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	<b>Three months ended June 30,</b>	
	<b>Restated 2003</b>	<b>2002</b>
Net income - as reported	\$ 697	\$2,408
Stock based compensation costs, net of income tax, included in net income as reported	205	166
Stock based compensation costs, net of income tax, that would have been included in net income if the fair value method had been applied	--	--
Net income - proforma	\$ 902	\$2,574
Basic earnings per share - as reported	\$ 0.04	\$ 0.16
Stock based compensation costs, net of income tax, included in net income as reported	0.01	0.02
Stock based compensation costs, net of income tax, that would have been included in net income if the fair value method had been applied	--	--
Basic earnings per share - proforma	\$ 0.05	\$ 0.18
Earnings per share - assuming dilution - as reported	\$ 0.04	\$ 0.15
Stock based compensation costs, net of income tax, included in net income as reported	0.01	0.01
Stock based compensation costs, net of income tax, that would have been included in net income if the fair value method had been applied	--	--
Earnings per share - assuming dilution - proforma	\$ 0.05	\$ 0.16

The fair value of each option grant was estimated based on actual information available through June 30, 2003 and 2002 using the Black Scholes option-pricing model with the following assumptions:

Term	Vesting period
Risk free interest rate	3.28% and 3.28% at June 30, 2003 and 2002, respectively
Dividend yield	2.53% and 2.50% at June 30, 2003 and 2002, respectively

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Volatility 50.11% and 40.2% at June 30, 2003 and 2002, respectively

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. This interpretation elaborates the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's consolidated results of operations, financial position or cash flows.

In April, 2003, the FASB issued SFAS No. 149, "Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 requires that contracts with comparable characteristics be accounted for similarly and is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003.

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In May, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted SFAS No. 150 on July 1, 2003 and this adoption did not have a material impact on the financial statements.

### **Note 10. Long-Term Debt**

On May 1, 2003 in connection with the purchase of SKF's Veenendaal component manufacturing operations and SKF's 23 percent interest in Euroball, we entered into a new \$90 million syndicated credit facility with AmSouth Bank ("AmSouth") as the administrative agent and Suntrust Bank as the Euro loan agent for the lenders under which we borrowed \$60.4 million and 26.3 million Euros (\$29.6 million). This new financing arrangement replaces our prior credit facility with AmSouth and Hypo Vereinsbank Luxembourg, S.A. The credit facility consists of a \$30.0 million revolver expiring on March 1, 2005, bearing interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0, a \$30.4 million term loan expiring on May 1, 2008, bearing interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0 and a 26.3 million (\$29.6 million) Euros term loan expiring on May 1, 2008 which bears interest at a floating rate equal to Euro LIBOR (2.14% at June 30, 2003) plus an applicable margin of 1.25 to 2.0. The loan agreement contains customary financial and non-financial covenants. Such covenants specify that we must maintain certain liquidity measures. The loan agreement also contains customary restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, restricted payments (including payment of dividends and stock repurchases), issuance of equity securities, and mergers, acquisitions and other fundamental changes in the Company's business. The credit agreement is un-collateralized except for the

pledge of stock of certain foreign subsidiaries. We were in compliance with all such covenants as of June 30, 2003. In connection with this refinancing, capitalized costs in the amount of \$455,000 associated with the paid-off credit facilities were written-off and are included as a component of Other (income) expense.

**Note 11. Sale of Common Stock**

During May, 2003, we completed a public offering of 3.6 million shares of our stock by a group of selling shareholders. We did not receive any proceeds from the sale of the shares previously held by the group of selling shareholders, however, the underwriters did exercise their over-allotment option of 533,600 shares, which were offered by us. Net proceeds received by us in connection with the exercise of the over-allotment option were approximately \$5.1 million.

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

**Restatement**

The Company has restated its Consolidated Financial Statements for the three and six month periods ended June 30, 2003 and 2002 solely to amend the financial reporting of certain transactions related to the formation of Euroball on July 31, 2000 and the subsequent purchases of the minority interests held by INA/FAG and SKF on December 20, 2002 and May 2, 2003, respectively. These restatements had no material effect on the Company's reported net sales, gross profit, income from operations, or cash flows for the three and six month periods ended June 30, 2003 and June 30, 2002.

We have revised the valuation of the original purchase price associated with the formation of Euroball in July 2000. This revision resulted in a reduction of goodwill of approximately 4.1 million Euro (\$3.8 million). Further, we have increased stockholders' equity by approximately 10.0 million Euro (\$9.3 million) to reflect the amount by which the Company's proportionate interest in Euroball exceeded the book value of the net assets exchanged by the Company. As a result of these two adjustments, minority interest in consolidated subsidiaries has been reduced by approximately \$7.4 million at December 31, 2002, goodwill has been reduced \$4.7 million and \$4.3 million at June 30, 2003 and December 31, 2002, respectively, and paid-in-capital increased \$9.3 million June 30, 2003 and December 31, 2002, respectively, from amounts previously reported. Comprehensive income has also been restated for foreign currency translation effects of these adjustments.

In the previously issued December 31, 2002 and June 30, 2003 Consolidated Financial Statements, when the Company acquired the 23% interest in Euroball held by INA/FAG in December 2002 and the 23% interest in Euroball held by SKF in May 2003, the excess of minority interest in consolidated subsidiaries in Euroball over the purchase price was recorded as a non-taxable gain in the amount of approximately \$5.9 million and \$6.6 million, respectively. As restated in the accompanying Consolidated Financial Statements, the non-taxable gains have been excluded and the excess of the purchase price over the fair value of INA/FAG's 23% interest and SKF's 23% interest in the net assets of Euroball was allocated to goodwill. The resulting impact to the Consolidated Financial Statements is an increase to goodwill of approximately \$1.5 million and \$3.7

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million, a decrease in retained earnings of approximately \$5.9 million and \$12.5 million as of December 31, 2002 and June 30, 2003, respectively, and reversal of the \$6.6 million gain previously recorded in the Consolidated Financial Statements of Income and Comprehensive Income for the three and six months ended June 30, 2003.

Additionally, the Company has reclassified minority interest in consolidated subsidiaries from a component of total liabilities to a separate line item in the Condensed Consolidated Balance Sheets at December 31, 2002.

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### Results of Operations (Restated)

#### Three Months Ended June 30, 2003 Compared to the Three Months Ended June 30, 2002

*Net Sales.* Net sales increased by approximately \$15.0 million or 30.5% from \$49.2 million for the second quarter of 2002 to \$64.2 million for the second quarter of 2003. By segment, sales increased \$0.2 million, and \$15.0 million for the Domestic Ball and Roller Segment and the NN Europe Segment, respectively. Net sales for the Plastic and Rubber Components Segment decreased by \$0.2 million. Within the NN Europe Segment, \$9.3 million of the increase is related to our May 2, 2003 acquisition of Veenendaal and the inclusion of two months of its operations. The remaining \$5.4 million of the increase is related to the impact of currency exchange rates. Net sales decreased by \$0.2 million for the Plastic and Rubber Components Segment.

*Gross Profit.* Gross profit increased by \$1.4 million or 10.9% from \$13.0 million for the second quarter of 2002 to \$14.5 million for the second quarter of 2003. By segment, gross profit increased \$2.6 million for the NN Europe Segment. Within the NN Europe Segment, \$1.4 million of the increase is related to the two months of Veenendaal results included in our results due to the May 2, 2003 acquisition and \$1.3 million is related to currency impacts. Gross profit decreased by \$0.4 million and \$0.8 million for the Domestic Ball and Roller Segment and the Plastic and Rubber Components Segment, respectively. Within the Domestic Ball and Roller Segment, the decrease resulted principally from labor inefficiencies associated with implementing lean manufacturing techniques. Within the Plastic and Rubber Components Segment, \$0.3 million of the decrease is related to an impairment charge on the inventory of our Guadalajara, Mexico facility and decreased demand. As a percentage of net sales, gross profit decreased from 26.5% for the second quarter of 2002 to 22.6% for the second quarter of 2003.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$1.0 million, or 19.8%, from \$4.8 million in the second quarter of 2002 to \$5.8 million in the second quarter of 2003. The inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition contributed \$0.6 million of the increase. The impact of currency exchange rates in the NN Europe Segment resulted in a \$0.4 million increase. As a percentage of net sales, selling, general and administrative expenses decreased from 9.7% in the second quarter of 2002 to 9.0% in the second quarter of 2003.

*Depreciation and Amortization.* Depreciation and amortization expenses increased by \$0.7 million, or 25.8%, from \$2.8 million in the second quarter of 2002 to \$3.5 million in the second quarter of 2003. The inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition contributed \$0.4 million

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of the increase. Currency impacts in the NN Europe Segment resulted in a \$0.3 million increase. As a percentage of net sales, depreciation and amortization decreased from 5.6% in the second quarter of 2002 to 5.4% in the second quarter of 2003.

*Restructuring and Impairment Costs.* Restructuring and impairment costs increased by \$2.7 million from \$0 during the second quarter of 2002 to \$2.7 million for the second quarter of 2003. The increase is related to the restructuring and impairment charges recorded in the second quarter of 2003 due to the planned closure of our Guadalajara, Mexico injection molding facility. The charges consist of \$2.4 million related to asset write-downs to their estimated fair market values, including \$1.3 million related to goodwill, \$1.0 million related to property, plant and equipment, and \$0.1 million related to accounts receivable. In addition, a \$0.3 million charge related to employee severance costs has been recorded. Restructuring and impairment charges were 0.0% of net sales in the second quarter of 2002 and 4.2% of net sales in the second quarter of 2003.

*Interest Expense.* Interest expense increased by \$0.2 million from \$0.6 million in the second quarter of 2002 to \$0.8 million in the second quarter of 2003. The increase is attributed to increased debt levels due to the previously announced acquisition of Veenendaal during May 2003, and the previously announced purchase of the 23% interest in Euroball held by INA/FAG during December 2002, and the previously announced purchase of the 23% interest in Euroball held by SKF during May 2003. As a percentage of net sales, interest expense was unchanged at 1.2% of net sales for both the second quarter of 2002 and the second quarter of 2003.

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*Minority Interest in Consolidated Subsidiary.* Minority interest of consolidated subsidiary decreased \$0.7 million from \$0.8 million in the second quarter of 2002 to \$0.1 million in the second quarter of 2003. This decrease is due entirely to the Euroball joint venture, which the Company has been required to consolidate since its formation on August 1, 2000. During the second quarter of 2002, minority interest in consolidated subsidiary represented the 46% of the shares of the joint venture held by the minority partners. During the second quarter of 2003, minority interest in consolidated subsidiary represents the 23% of the shares of the joint venture held by the remaining minority partner through May 2, 2003. On May 2, 2003 we purchased the 23% interest held by SKF. As previously announced, we purchased the 23% interest in Euroball held by INA/FAG on December 20, 2002. Effective May 2, 2003 and as of June 30, 2003, we own 100% of the shares of Euroball. Minority interest in consolidated subsidiary represents the combined interest in Euroball's earnings of the minority partner and the 49% interest in Arte's earnings of the minority partner (the 49% interest in NN Arte's earnings is zero in the second quarter of 2002).

*Net Income.* Net income decreased by \$1.7 million, or 71.1%, from \$2.4 million in the second quarter of 2002 to \$0.7 million in the second quarter of 2003. As a percentage of net sales, net income decreased from 4.9% in the second quarter of 2002 to 1.1% in the second quarter of 2003.

### **Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002**

*Net Sales.* Net sales increased by approximately \$25.4 million or 26.4% from \$96.4 million for the first six months of 2002 to \$121.8 million for the first six months of 2003. By segment, net sales increased \$22.1 million, \$2.0 million and \$1.3 million for the NN Europe Segment, the Plastic and Rubber Components Segment and the Domestic Ball and Roller Segment, respectively. Within the NN

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Europe Segment, \$9.3 million of the increase is related to the inclusion of two months of Veenendaal results which we acquired on May 2, 2003, \$10.7 million is related to currency impacts and \$2.1 million is related to increases in demand. Within the Plastic and Rubber Components Segment and Domestic Ball and Roller Segment the increase is principally related to increases in demand and new programs within the Plastic and Rubber Components Segment.

*Gross Profit.* Gross profit increased approximately \$4.6 million, or 18.7%, from \$24.7 million for the first six months of 2002 to \$29.3 million for the first six months of 2003. By segment, gross profit increased by \$0.6 million for the Domestic Ball and Roller Segment and \$4.7 million for the NN Europe Segment. Within the NN Europe Segment, \$1.4 million of the increase is related to the inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition, \$2.7 million is related to currency impacts and \$0.6 million is related to increases in product demand. Offsetting these increases was a decrease in the Plastic and Rubber Components Segment of approximately \$0.7 million. Within the Plastic and Rubber Components Segment, \$0.3 million of the decrease is related to an impairment charge on the inventory of our Guadalajara, Mexico facility and \$0.3 million of the decrease is related to decreased demand. As a percentage of sales, gross profit decreased from 25.6% for the first six months of 2002 to 24.1% for the first six months of 2003.

*Selling, General and Administrative.* Selling, general and administrative expenses increased by approximately \$1.1 million, or 11.7%, from \$9.3 million for the first six months of 2002 to \$10.4 million for the first six months of 2003. By segment, selling general and administrative expenses decreased \$0.2 million for both the Domestic Ball and Roller Segment and the Plastic and Rubber Components Segment. For the NN Europe Segment, selling, general and administrative expenses increased \$1.4 million. Within the NN Europe Segment, \$0.6 million of the increase is related to the inclusion of two months of Veenendaal results which we acquired on May 2, 2003 and \$0.8 million of the increase is related to currency impacts. As a percentage of sales, selling, general and administrative expenses decreased from 9.7% for the first six months of 2002 to 8.5% for the first six months of 2003.

*Depreciation and Amortization.* Depreciation and amortization expenses increased by \$1.0 million, or 16.7%, from \$5.6 million in the first six months of 2002 to \$6.6 million for the first six months of 2003. \$0.4 million of the increase is related to the inclusion of two months of Veenendaal results due to the May 2, 2003 acquisition and \$0.5 million of the increase is related to currency impacts. As a percentage of sales, depreciation and amortization expenses decreased from 5.8% for the first six months of 2002 to 5.4% for the first six months of 2003.

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*Restructuring and Impairment Costs.* Restructuring and impairment costs increased by \$2.6 million from \$0.1 million for the first six months of 2002 to \$2.7 million for the first six months of 2003. The increase is related to the restructuring and impairment charges recorded in the second quarter of 2003 due to the planned closure of our Guadalajara, Mexico injection molding facility. The charges consist of \$2.4 million related to asset write-downs to their estimated fair market values, including \$1.3 million related to goodwill, \$1.0 million related to property, plant and equipment, and \$0.1 million related to accounts receivable. In addition, a \$0.3 million charge related to employee severance costs has been recorded. Restructuring and impairment charges were 0.1% of net sales in the first six months of 2002 and 2.2% of net sales for the first six months of 2003.

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*Interest Expense.* Interest expense increased by \$0.2 million from \$1.1 million for the first six months of 2002 to \$1.3 million for the first six months of 2003. The increase is attributed to increased debt levels due to the previously announced acquisition of Veenendaal during May 2003, the previously announced purchase of the 23% interest in Euroball held by INA/FAG during December 2002, and the previously announced purchase of the 23% interest in Euroball held by SKF during May 2003. As a percentage of net sales, interest expense decreased 0.1% from 1.2% of net sales for the first six months of 2002 to 1.1% for the first six months of 2003.

*Minority Interest in Consolidated Subsidiary.* Minority interest of consolidated subsidiary decreased \$0.8 million from \$1.5 million for the first six months of 2002 to \$0.7 million for the first six months of 2003. This decrease is due entirely to the Euroball joint venture, which the Company has been required to consolidate since its formation on August 1, 2000. During the first six months of 2002, minority interest in consolidated subsidiary represented the 46% of the shares of the joint venture held by the minority partners. During the second quarter of 2003, minority interest in consolidated subsidiary represents the 23% of the shares of the joint venture held by the remaining minority partner through May 2, 2003. On May 2, 2003 we purchased the 23% interest held by SKF. As previously announced, we purchased the 23% interest in Euroball held by INA/FAG on December 20, 2002. Effective May 2, 2003 and as of June 30, 2003, we own 100% of the shares of Euroball. Minority interest in consolidated subsidiary represents the combined interest in Euroball's earnings of the minority partner and the 49% interest in NN Arte's earnings of the minority partner (the 49% interest in NN Arte's earnings is zero in the first six months of 2002).

*Net Income.* Net income increased by \$0.1 million, or 1.9%, from \$4.2 million in the first six months of 2002 to \$4.3 million in the first six months of 2003. As a percentage of net sales, net income decreased from 4.4% in the first six months of 2002 to 3.6% in the first six months of 2003.

### **Recent Developments**

During May 2003, we completed a public offering of 3.6 million shares of our stock by a group of selling shareholders. We did not receive any proceeds from the sale of the shares previously held by the group of selling shareholders, however, the underwriters did exercise their over-allotment option of 533,600 shares. Net proceeds received by us in connection with the exercise of the over-allotment were approximately \$5.1 million.

On May 2, 2003, we acquired the 23 percent interest in NN Euroball, ApS ("Euroball") held by SKF. We paid approximately 13.8 million Euros (\$15.6 million). Euroball was formed in 2000 by the Company, FAG Kugelfischer George Shaefer AG, which was subsequently acquired by INA - Schaeffler KG ("INA/FAG"), and AB SKF ("SKF"). Upon consummation of this transaction, we became the sole owner of Euroball. See Note 1 "Restatement", to Consolidated Financial Statements for additional information.

On May 2, 2003, we acquired the tapered roller and metal cage manufacturing operations of SKF in Veenendaal, The Netherlands. We paid consideration of approximately 23.0 million Euros (\$25.7 million) and incurred costs of approximately \$0.9 million, for the Veenendaal net assets acquired from SKF. The Veenendaal operation manufactures rollers for tapered roller bearings and metal cages for both tapered roller and spherical roller bearings.

In connection with the acquisition of SKF's Veenendaal operations, SKF purchased 700,000 shares of our common stock from us for an aggregate fair value of approximately \$6.9 million which was applied to the purchase of SKF's Veenendaal, The Netherlands operations. For purposes of valuing the 700,000 common



shares issued, the value was determined based on the average market price of NN, Inc.'s common shares over the two-day period before, the day of, and the two-day period after the terms of the acquisition were agreed to, April 14, 2003.

### **Liquidity and Capital Resources**

On May 1, 2003 in connection with the purchase of SKF's Veenendaal component manufacturing operations and SKF's 23 percent interest in Euroball, we entered into a new \$90 million syndicated credit facility with AmSouth Bank ("AmSouth") as the administrative agent and Suntrust Bank as the Euro loan agent for the lenders under which we borrowed \$60.4 million and 26.3 million Euros (\$29.6 million). This new financing arrangement replaces our prior credit facility with AmSouth and Euroball's credit facility with Hypo Vereinsbank Luxembourg, S.A. The credit facility consists of a \$30.0 million revolver expiring on March 1, 2005, bearing interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0, a \$30.4 million term loan expiring on May 1, 2008, bearing interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 1.25 to 2.0 and a 26.3 million (\$29.6 million) Euros term loan expiring on May 1, 2008 which bears interest at a floating rate equal to Euro LIBOR (2.14% at June 30, 2003) plus an applicable margin of 1.25 to 2.0. The loan agreement contains customary financial and non-financial covenants. Such covenants specify that we must maintain certain liquidity measures. The loan agreement also contains customary restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, restricted payments (including payment of dividends and stock repurchases), issuance of equity securities, and mergers, acquisitions and other fundamental changes in our business. The credit facility is un-collateralized except for the pledge of stock of certain foreign subsidiaries. We were in compliance with all such covenants as of June 30, 2003.

From July 20, 2001 until May 1, 2003, the date that this loan agreement was paid off, we had a syndicated loan agreement with AmSouth as the administrative agent for the lenders, for a senior non-secured revolving credit facility of up to \$25.0 million, expiring on July 25, 2003 and a senior non-secured term loan for \$35.0 million expiring on July 1, 2006. On July 12, 2002, we amended this credit facility to convert the term loan portion into a reducing revolving credit line providing initial availability equivalent to the balance of the term loan prior to the amendment. Amounts available for borrowing under this facility were to be reduced by \$ 7.0 million per annum and the facility was to expire on July 1, 2006. Additionally, on July 31, 2002, we amended the credit facility again to extend the \$25 million senior non-secured revolving credit facility to July 25, 2004. Amounts outstanding under the revolving facility and term loan facility bore interest at a floating rate equal to LIBOR (1.12% at June 30, 2003) plus an applicable margin of 0.75% to 2.00% based upon calculated financial ratios. The loan agreement contained customary financial and non-financial covenants. Such covenants specified that we had to maintain certain liquidity measures and limited the amount of capital expenditures we could make in any fiscal year. The loan agreement also contained customary restrictions on, among other things, additional indebtedness, liens on our assets, sales or transfers of assets, investments, restricted payments (including payment of dividends and stock repurchases), issuance of equity securities, and mergers, acquisitions and other fundamental changes in our business. Additionally, the terms of this loan agreement restricted the declaration and payment of dividends in excess of \$5.5 million in any fiscal year. Our ownership in NN Euroball ApS had been pledged as collateral.

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In connection with the Euroball transaction we and Euroball, entered into a Facility Agreement with a bank to provide up to Euro 36.0 million in Term Loans and Euro 5.0 million in revolving credit loans. We borrowed Euro 30.5 million (\$28.8 million) under the term loan facility and Euro 1.0 million (\$0.9 million) under the revolving credit facility. Amounts outstanding under the Facility Agreement bore interest at EURIBOR (2.14% at June 30, 2003) plus an applicable margin between 0.8% and 2.25% based upon financial ratios. The shareholders of Euroball provided guarantees for the Facility Agreement. The Facility Agreement contained restrictive covenants, which specified, among other things, restrictions on the incurrence of indebtedness and the maintenance of certain financial ratios. Amounts outstanding under the Facility Agreement were secured by the stock in certain subsidiaries, inventory and accounts receivable of Euroball. This loan agreement was paid off on May 1, 2003.

Our arrangements with our domestic customers typically provide that payments are due within 30 days following the date of shipment of goods by us, while arrangements with certain export customers (other

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than export 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. Our net sales have historically been of a seasonal nature due to our relative percentage of European business coupled with slower European production during the month of August.

We bill and receive payment from some of our foreign customers in Euro as well as other currencies. To date, we have not been materially adversely affected by currency fluctuations. Nonetheless, as a result of these sales, our foreign exchange transaction and translation risk has increased. Various strategies to manage this risk are available to management including producing and selling in local currencies and hedging programs. As of June 30, 2003, no currency hedges were in place. In addition, a strengthening of the U.S. dollar and/or Euro against foreign currencies could impair our ability to compete with international competitors for foreign as well as domestic sales.

Working capital, which consists principally of accounts receivable and inventories, was \$27.4 million at June 30, 2003 as compared to \$21.2 million at December 31, 2002. The ratio of current assets to current liabilities decreased from 1.53:1 at December 31, 2002 to 1.44:1 at June 30, 2003. Cash flow from operations decreased to \$3.7 million during the first six months of 2003 from \$15.0 million during the first six months of 2002.

During 2003, we plan to spend approximately \$9.0 million to \$10.0 million on capital expenditures (of which approximately \$4.3 million has been spent through June 30, 2003) including the purchase of additional machinery and equipment for all of our domestic facilities as well as four European facilities. We intend to finance these activities with cash generated from operations and funds available under the credit facilities described above. We believe that funds generated from operations and borrowings from the credit facilities will be sufficient to finance our working capital needs and projected capital expenditure requirements through December 2003.

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### **The Euro**

We currently have operations in Italy, Germany, Ireland, and The Netherlands all of which are Euro participating countries, and sell 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**

Our net sales historically have been of a seasonal nature due to a significant portion of our sales to European customers that cease or significantly slow production during the month of August.

### **Inflation and Changes in Prices**

While the Company's operations have not been materially affected by inflation during recent years, prices for 52100 Steel, engineered resins and other raw materials purchased by the Company are subject to material 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. In the Company's U.S. operations our typical pricing arrangements with steel suppliers are subject to adjustment once every six months. The Company's NN Europe Segment has entered into long term agreements with its primary steel supplier, which provide for standard terms and conditions and annual pricing adjustments to offset material price fluctuations in steel. The Company typically reserves the right to increase product prices periodically in the event of increases in its raw material costs. In the past, the Company has been able to minimize the impact on its operations resulting from the 52100 Steel price fluctuations by taking such measures. Certain sales agreements are in effect with SKF and INA/FAG, which provide for minimum purchase quantities and specified, annual sales price reductions that may be modified up or down for changes in material costs. These agreements expire during 2006 and 2008.

### **Critical Accounting Policies**

Our significant accounting policies, including the assumptions and judgments underlying them, are disclosed in the Company's Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2002 including those policies as discussed in Note 2. These policies have been consistently applied in all material respects and address such matters as revenue recognition, inventory valuation, asset impairment recognition, business combination accounting and pension and postretirement benefits. Due to the estimation processes involved, management considers the following summarized accounting policies and their application to be critical to understanding the Company's business operations, financial condition and results of operations. There can be no assurance that actual results will not significantly differ from the estimates used in these critical accounting policies.

**Accounts Receivable.** Substantially all of the Company's accounts receivable are due primarily from the served markets: bearing manufacturers, automotive industry, electronics, industrial, agricultural and aerospace. In establishing allowances for doubtful accounts, the Company continuously performs credit evaluations of its customers, considering numerous inputs when available including the customers' financial position, past payment history, relevant industry trends, cash flows, management capability, historical loss experience and economic conditions and prospects. While management believes that adequate

allowances for doubtful accounts have been provided in the Consolidated Financial Statements, it is possible that the Company could experience additional unexpected credit losses.

**Inventories.** Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. The Company's inventories are not generally subject to obsolescence due to spoilage or expiring product life cycles. The Company operates generally as a make-to-order business; however, the Company also stocks products for certain customers in order to meet delivery schedules. While management believes that adequate write-downs for inventory obsolescence have been made in the Consolidated Financial Statements, the Company could experience additional inventory write-downs in the future.

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**Acquisitions and Acquired Intangibles.** For new acquisitions, the Company uses estimates, assumptions and appraisals to allocate the purchase price to the assets acquired and to determine the amount of goodwill. These estimates are based on market analyses and comparisons to similar assets. Annual tests are required to be performed to assess whether recorded goodwill is impaired. The annual tests require management to make estimates and assumptions with regard to the future operations of its reporting units, the expected cash flows that they will generate, and their market value. These estimates and assumptions therefore impact the recorded value of assets acquired in a business combination, including goodwill, and whether or not there is any subsequent impairment of the recorded goodwill and the amount of such impairment.

**Impairment of Long-Lived Assets.** The Company's long-lived assets include property, plant and equipment. The recoverability of the long-term assets is dependent on the performance of the companies which the Company has acquired, as well as volatility inherent in the external markets for these acquisitions. In assessing potential impairment for these assets the Company will consider these factors as well as forecasted financial performance. For assets held for sale, appraisals are relied upon to assess the fair market value of those assets. Future adverse changes in market conditions or adverse operating results of the underlying assets could result in the Company having to record additional impairment charges not previously recognized.

**Pension and Post-Retirement Obligations.** The Company uses several assumptions in determining its periodic pension and post-retirement expense and obligations which are included in the Consolidated Financial Statements. These assumptions include determining an appropriate discount rate, rate of compensation increase as well as the remaining service period of active employees. The Company uses an independent actuary to calculate the periodic pension and post-retirement expense and obligations based upon these assumptions and actual employee census data.

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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. Statements regarding capital expenditures, future borrowings, and financial commitments are forward-looking statements. Readers can identify 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.

*You should carefully consider the following risks and uncertainties, and all other information contained in or incorporated by reference in this quarterly report on Form 10-Q/A, as amended, before making an investment in our common stock. Any of the following risks could have a material adverse effect on our business, financial condition or operating results. In such case, the trading price of our common stock could decline and you may lose all or part of your investment.*

***The demand for our products is cyclical, which could adversely impact our revenues.***

The end markets for fully assembled bearings are cyclical and tend to decline in response to overall declines in industrial production. As a result, the market for bearing components is also cyclical and impacted by overall levels of industrial production. Our sales in the past have been negatively affected, and in the future will be negatively affected, by adverse conditions in the industrial production sector of the economy or by adverse global or national economic conditions generally.

***We depend on a very limited number of foreign sources for our primary raw material and are subject to shortages and price fluctuation.***

The steel that we use to manufacture precision balls and rollers is of an extremely high quality and is available from a limited number of producers on a global basis. Due to quality constraints in the U.S. steel industry, we obtain substantially all of the steel used in our U.S. ball and roller production from overseas suppliers. In addition, we obtain substantially all of the steel used in our European ball production from a single European source. If we had to obtain steel from sources other than our current suppliers, particularly in the case of our European operations, we could face higher prices and transportation costs, increased duties or taxes, and shortages of steel. Problems in obtaining steel, and particularly 52100 chrome steel, in the quantities that we require and on commercially reasonable terms, could increase our costs, negatively impact our ability to operate our business efficiently and have a material adverse effect on the operating and financial results of our Company.

***We operate in and sell products to customers outside the U.S. and are subject to several related risks.***

Because we obtain a majority of our raw materials from overseas suppliers, actively participate in overseas manufacturing operations and sell to a large number of international customers, we face risks associated with the following:

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- o adverse foreign currency fluctuations;
- o changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations;
- o the imposition of trade restrictions or prohibitions;
- o high tax rates that discourage the repatriation of funds to the U.S.;
- o the imposition of import or other duties or taxes; and
- o unstable governments or legal systems in countries in which our suppliers, manufacturing operations, and customers are located.

We do not have a hedging program in place associated with consolidating the operating results of our foreign businesses into U.S. Dollars. An increase in the value of the U.S. Dollar and/or the Euro relative to other currencies may adversely affect our ability to compete with our foreign-based competitors for international, as well as domestic, sales. In the first six months of 2003, approximately 42% of the \$25.4 million increase in revenues was attributable to favorable currency fluctuations. Also, a decline in the value of the Euro relative to the U.S. Dollar will negatively impact our consolidated financial results, which are denominated in U.S. Dollars.

In addition, due to the typical slower summer manufacturing season in Europe, we expect that revenues in the third fiscal quarter will reflect lower sales, as our sales to European customers have increased as a percentage of net sales.

***We depend heavily on a relatively limited number of customers, and the loss of any major customer would have a material adverse effect on our business.***

Sales to various U.S. and foreign divisions of SKF, which is one of the largest bearing manufacturers in the world, accounted for approximately 33% of consolidated net sales in 2002, and sales to INA/FAG accounted for approximately 19% of consolidated net sales in 2002. Our recent acquisition at SKF's tapered roller and metal cage production facility, along with the related long-term supply agreement with SKF, will increase our dependence on SKF in the future. During 2002, our ten largest customers accounted for approximately 73% of our consolidated net sales. None of our other customers individually accounted for more than 5% of our consolidated net sales for 2002. Recent consolidation of certain of our bearing customers, including the acquisition at the Torrington Company by Timken, will increase our dependence on a smaller number of customers. The loss of all or a substantial portion of sales to these customers would cause us to lose a substantial portion of our revenue and would lower our profit margin and cash flows from operations.

***The costs and difficulties of integrating acquired business could impede our future growth.***

We cannot assure you that any future acquisition will enhance our financial performance. Our ability to effectively integrate any future acquisitions will depend on, among other things, the adequacy of our implementation plans, the ability of our management to oversee and operate effectively the combined operations and our ability to achieve desired operating efficiencies and sales goals. The integration of any acquired businesses might cause us to incur unforeseen costs, which would lower our profit margin and future earnings and would prevent us from realizing the expected benefits of these acquisitions.

***We may not be able to continue to make the acquisitions necessary for us to realize our growth strategy.***

Acquiring businesses that complement or expand our operations has been and continues to be an important element of our business strategy. This strategy calls for growth through acquisitions constituting approximately two-thirds of our future growth, with the remainder resulting from internal growth and market penetration. We bought our plastic bearing component business in 1999, formed Euroball with our two largest bearing customers, SKF and INA/FAG, in 2000 and acquired our bearing seal operations in

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2001. During 2002, we purchased INA/FAG's minority interest in Euroball and on May 2, 2003, we acquired SKF's minority interest in Euroball, to become the sole owner at Euroball. On May 2, 2003 we acquired SKF's tapered roller and metal cage manufacturing operations in Veenendaal, The Netherlands. We cannot assure you that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms in the future. In addition, we may borrow funds to acquire other businesses, increasing our interest expense and debt levels. Our inability to acquire businesses, or to operate them profitably once acquired, could have a material adverse effect on our business, financial position, results of operations and cash flows.

***Our growth strategy depends on outsourcing, and if the industry trend toward outsourcing does not continue, our business could be adversely affected.***

Our growth strategy depends in significant part on major bearing manufacturers continuing to outsource components, and expanding the number of components being outsourced. This requires manufacturers to depart significantly from their traditional methods of operations. If major bearing manufacturers do not continue to expand outsourcing efforts or determine to reduce their use of outsourcing, our ability to grow our business could be materially adversely affected.

***Our market is highly competitive and many of our competitors have significant advantages that could adversely affect our business.***

The global market for bearing components is highly competitive, with a majority of production represented by the captive production operations of certain large bearing manufacturers and the balance represented by independent manufacturers. Captive manufacturers make components for internal use and for sale to third parties. All of the captive manufacturers, and many independent manufacturers, are significantly larger and have greater resources than do we. Our competitors are continuously exploring and implementing improvements in technology and manufacturing processes in order to improve product quality, and our ability to remain competitive will depend, among other things, on whether we are able to keep pace with such quality improvements in a cost effective manner.

***The production capacity we have added over the last several years has at times resulted in our having more capacity than we need, causing our operating costs to be higher than expected.***

We have expanded our ball and roller production facilities and capacity over the last several years. During 1997, we built an additional manufacturing plant in Kilkenny, Ireland, and we continued this expansion in 2000 through the formation of Euroball with SKF and INA/FAG. Our ball and roller facilities have not always operated at full capacity and from time to time our results of operations have been adversely affected by the under-utilization of our production facilities, and we face risks of further under-utilization or inefficient utilization of our production facilities in future years.

***The price of our common stock may be volatile.***

The market price of our common stock could be subject to significant fluctuations and may decline. Among the factors that could affect our stock price are:

- o our operating and financial performance and prospects;
- o quarterly variations in the rate of growth of our financial indicators, such as earnings per share, net income and revenues;
- o changes in revenue or earnings estimates or publication of research reports by analysts;
- o loss of any member of our senior management team;
- o speculation in the press or investment community;
- o strategic actions by us or our competitors, such as acquisitions or restructurings;

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- o sales of our common stock by stockholders;
  - o general market conditions; and
  - o domestic and international economic, legal and regulatory factors unrelated to our performance.

The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

***Provisions in our charter documents and Delaware law may inhibit a takeover, which could adversely affect the value of our common stock.***

Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable and may prevent you from receiving a takeover premium for your shares. These provisions include, for example, a classified board of directors and the authorization of our board of directors to issue up to 5,000,000 preferred shares without a stockholder vote. In addition, our restated certificate of incorporation provides that stockholders may not call a special meeting.

We are a Delaware corporation subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Generally, this statute prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which such person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the stockholder. We anticipate that the provisions of Section 203 may encourage parties interested in acquiring us to negotiate in advance with our board of directors, because the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction that results in the



stockholder becoming an interested stockholder.

These provisions apply even if the offer may be considered beneficial by some of our stockholders. If a change of control or change in management is delayed or prevented, the market price of our common stock could decline.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to changes in financial market conditions in the normal course of our business due to our use of certain financial instruments as well as transacting in various foreign currencies. To mitigate our exposure to these market risks, we have established policies, procedures and internal processes governing our management of financial market risks. We are exposed to changes in interest rates primarily as a result of our borrowing activities. At June 30, 2003, these borrowings included a \$30 million term loan and a \$30 million revolving credit facility which was used to maintain liquidity and fund our business operations. At June 30, 2003, we had \$55.9 million outstanding under the domestic credit facilities and Euroball had 25.0 million Euro (\$28.5 million) outstanding under the Euro term loan. At June 30, 2003, a one-percent increase in the interest rate charged on our outstanding borrowings under both credit facilities would result in interest expense increasing annually by approximately \$0.8 million. In connection with a variable EURIBOR rate debt financing in July 2000 our majority owned subsidiary, Euroball 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 us 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. This original debt was repaid in May 2003, however, the swap remains pursuant to its original terms. On May 1, 2003, we entered into a new \$90 million syndicated credit facility. This new financing arrangement replaces our prior credit facility with AmSouth and Euroball's credit facility with Hypo Vereinsbank Luxembourg, S.A., see "Management's Discussion and Analysis of Financial Condition and

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Results of Operations - Liquidity and Capital Resources". The nature and amount of our borrowings may vary as a result of future business requirements, market conditions and other factors.

Translation of our operating cash flows denominated in foreign currencies is impacted by changes in foreign exchange rates. Our NN Europe Segment, bills and receives payments from some of its foreign customers in their own currency. To date, we have not been materially adversely affected by currency fluctuations of foreign exchange restrictions. However, to help reduce exposure to foreign currency fluctuation, management has incurred debt in Euros and has periodically used foreign currency hedges. These currency hedging programs allow management to hedge currency exposures when these exposures meet certain discretionary levels. We did not hold a position in any foreign currency hedging instruments as of June 30, 2003.

**Item 4. Controls and Procedures**

- a) As of June 30, 2003, we carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the

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Company's disclosure controls and procedures pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's Exchange Act filings.

- b) There have been no changes in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

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### Part II. Other Information

#### Item 1. Legal Proceedings

All legal proceedings and actions involving the Company are of an ordinary and routine nature and are incidental to the operations of the Company. Management believes that such proceedings should not, individually or in the aggregate, have a material adverse effect on the Company's business or financial condition or on the results of operations.

#### Item 2. Change in Securities and Use of Proceeds

None

#### Item 3. Defaults upon Senior Securities

None

#### Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on May 15, 2003. As of March 28, 2003, the record date for the meeting, there were 15,369,807 shares of common stock outstanding and entitled to vote at the meeting. There were present at said meeting, in person or by proxy, stockholders holding 14,728,346 shares of common stock, constituting approximately 96% of the shares of common stock outstanding and entitled to vote, which constituted a quorum.

The first matter voted upon at the meeting was the election of Roderick R. Baty as a Class I Director to serve for a three-year term. The vote was 14,656,813 For and 71,533 Withheld.

The nominee was elected to serve until the 2006 Annual Meeting of Stockholders and until his successor is duly elected and qualified. In addition to the foregoing director, Michael D. Huff and Michael E. Werner are serving terms that will expire in 2004, and Steven T. Warshaw, James E. Earsley, and G. Ronald Morris are serving terms that will expire in 2005. Mr. Baty continues in his position as Chairman of the Company's Board of Directors.

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The second matter voted upon at the meeting was the proposal to ratify and approve non-employee director stock options. The vote was 13,680,073 For and 252,057 Against, and there were 796,216 Abstentions.

The third matter voted upon at the meeting was the proposal that the shareholders approve an amendment to the Company's Stock Incentive Plan. The vote was 11,446,799 For and 2,483,505 Against and there were 798,042 Abstentions.

The fourth matter voted upon the 2003 Annual Meeting of Stockholders was the ratification of KPMG LLP as independent public accountants to audit the Company's accounts for the fiscal year ending December 31, 2003. The vote was 14,557,412 For and 69,245 Against, and there were 101,689 Abstentions.

### **Item 5. Other Information**

None

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

(a) Exhibits Required by Item 601 of Regulation S-K

- 2.1 Asset Purchase Agreement dated April 14, 2003 among SKF Holding Maatschappij Holland B.V., SKF B.V., NN, Inc. and NN Netherlands B.V. (incorporated by reference to Exhibit 2.1 of Form 8-K filed on May 16, 2003).

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- 10.1 Amendment No. 3 to NN, Inc. Stock Incentive Plan as ratified by the shareholders on May 15, 2003 amending the Plan to permit the issuance of awards under the Plan to directors of the Company.
  - 10.2 Credit Agreement dated as of May 1, 2003 among NN, Inc., and NN Euroball as the Borrowers, the Subsidiaries as Guarantors, the Lenders as identifies therein, AmSouth Bank as Administrative Agent, and SunTrust Bank as Documentation Agent and Euro Loan Agent.
  - 10.3 Supply Agreement between NN Euroball ApS and AB SKF dated April 6, 2000. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement, "Confidential portions of material have been omitted and filed separately with the Securities and Exchange Commission, " as indicated throughout the document with a n asterisk in brackets([\*]).
  - 10.4 Global Supply Agreement among NN, Inc., NN Netherlands B.V. and SKF Holding Maatschappij Holland B.V. dated April 14, 2003. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement, "Confidential portions of material have been omitted and filed separately with the Securities and Exchange Commission, " as indicated throughout the document with an asterisk in brackets([\*]).
  - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of

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Sarbanes-Oxley Act.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

### (b) Reports on Form 8-K

The Company filed a Form 8-K, in response to Items 5 and 7, on April 24, 2003 announcing its first quarter 2003 earnings.

The Company filed a Form 8-K/A, in response to Items 5, 7 and 9 on May 1, 2003 amending the 8-K filed on April 24, 2003.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 2, 2003 announcing it acquired SKF's component manufacturing operation in Veenendaal, The Netherlands.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 2, 2003 announcing it purchased SKF's interest in NN Euroball ApS.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 2, 2003 announcing it has filed with the Securities and Exchange Commission a prospectus, consisting of a prospectus supplement dated May 2, 2003, together with a base prospectus dated February 11, 2003, which relates to the Company's sale of 700,000 shares of its Common Stock.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 5, 2003 announcing a public offering of the Company's common stock.

The Company filed a Form 8-K, in response to Items 2 and 7, on May 16, 2003 announcing additional details related to the acquisition of SKF's Veenendaal, The Netherlands component

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manufacturing operation and filing the Asset Purchase Agreement.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 16, 2003 in order to furnish certain exhibits for incorporation by reference into the Registration Statement.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 16, 2003 announcing the completion of a public offering of the Company's common stock.

The Company filed a Form 8-K, in response to Items 5 and 7, on May 23, 2003 announcing the exercise of an over-allotment option by underwriters.

The Company furnished a Form 8-K, in response to Items 7 and 9, on May 27, 2003 announcing the payment of a regular quarterly cash dividend.

The Company filed a Form 8-K, in response to Items 5 and 7, on June 12, 2003 announcing the appointment of Robert M. Aiken Jr. to its Board of

Directors.

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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: January 30, 2004

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

Date: January 30, 2004

/s/ David L. Dyckman  
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David L. Dyckman  
Vice President - Corporate Development  
Chief Financial Officer  
(Principal Financial Officer)  
(Duly Authorized Officer)

Date: January 30, 2004

/s/ William C. Kelly, Jr.  
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William C. Kelly, Jr.,  
Treasurer, Secretary and  
Chief Administrative Officer  
(Duly Authorized Officer)