



# Edgar Filing: NN INC - Form 10-Q/A

## NN, Inc. INDEX

	<u>Page No.</u>
<b>Explanatory Statement</b>	2
<b>Part I. Financial Information</b>	
Item 1. Financial Statements:	
Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2003 and 2002 (unaudited) (restated)	3
Condensed Consolidated Balance Sheets at March 31, 2003 and December 31, 2002 (unaudited) (restated)	4
Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2003 and 2002 (restated)	5
Consolidated Statements of Cash Flows for the three months ended March 31, 2003 and 2002	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	25
Item 4. Controls and Procedures	26
<b>Part II. Other Information</b>	
Item 1. Legal Proceedings	27
Item 2. Exhibits and Reports on Form 8-K	27
Signatures	28

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### Explanatory Statement

This Amendment on Form 10-Q/A amends the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 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"). These restatements had no material effect on the Company's reported net sales, gross profit, income from operations, net income, earnings per share or cash flows for the three month periods ended March 31, 2003 and 2002.

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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 \$8.0 million and \$7.4 million at March 31, 2003 and December 31, 2002, respectively, goodwill has been reduced \$4.5 million and \$4.3 million at March 31, 2003 and December 31, 2002, respectively, and paid-in-capital increased \$9.3 million at March 31, 2003 and December 31, 2002, respectively, from amounts previously reported. Comprehensive income has also been restated for the foreign currency translation effects of these adjustments.

In the previously issued December 31, 2002 Consolidated Financial Statements, when the Company acquired the 23% interest in Euroball held by INA/FAG in December 2002, the excess of minority interest in consolidated subsidiaries over the December 2002 purchase price was recorded as a non-taxable gain in the amount of approximately \$5.9 million in the fourth quarter of 2002. As restated in the accompanying Consolidated Financial Statements, the non-taxable gain has been excluded and the excess of the purchase price over the fair value of INA/FAG'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 a decrease in retained earnings of approximately \$5.9 million at December 31, 2002 and March 31, 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 March 31, 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.

2

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### PART I. FINANCIAL INFORMATION

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

Thousands of Dollars, Except Per Share Data	Three Months Ended March 31,	
	Restated 2003	Restated 2002
Net sales	\$57,609	\$47,200
Cost of goods sold	42,743	35,532

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Gross profit	14,866	11,668
Selling, general and administrative	4,632	4,459
Depreciation and amortization	3,079	2,796
Restructuring costs	--	78
	-----	-----
Income from operations	7,155	4,335
Interest expense, net	513	669
Other income	(7)	(355)
	-----	-----
Income before provision for income taxes	6,649	4,021
Provision for income taxes	2,472	1,505
Minority interest of consolidated subsidiaries	534	668
	-----	-----
Net income	3,643	1,848
Other comprehensive income (loss):		
Foreign currency translation	1,798	(194)
	-----	-----
Comprehensive income	\$ 5,441	\$ 1,654
	=====	=====
Basic income per common share:	\$ 0.24	\$ 0.12
	=====	=====
Weighted average shares outstanding	15,378	15,341
	=====	=====
Diluted income per common share:	\$ 0.23	\$ 0.12
	=====	=====
Weighted average shares outstanding	15,574	15,735
	=====	=====

See accompanying notes.

3

NN, Inc.  
Condensed Consolidated Balance Sheets

Thousands of Dollars	Restated March 31, 2003 (Unaudited)	Restated December 31, 2002
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,228	\$ 5,144
Accounts receivable, net	39,091	28,965
Inventories, net	25,594	23,402
Other current assets	5,375	3,901

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Total current assets	73,288	61,412
Property, plant and equipment, net	89,537	88,199
Assets held for sale	1,939	2,214
Goodwill, net	39,715	39,374
Other assets	4,657	4,016
	-----	-----
Total assets	\$ 209,136	\$ 195,215
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 24,565	\$ 22,983
Bank overdraft	2,812	37
Accrued salaries & wages	6,579	6,354
Income taxes payable	3,014	620
Payable to affiliates	259	566
Current maturities of long-term debt	7,000	7,000
Other current liabilities	4,166	2,674
	-----	-----
Total current liabilities	48,395	40,234
Non-current deferred tax liability	9,479	9,334
Long-term debt	46,236	46,135
Accrued pension and other	9,840	9,319
	-----	-----
Total liabilities	113,950	105,022
Minority interest in consolidated subsidiaries	12,988	12,285
	-----	-----
Total stockholders' equity	82,198	77,908
	-----	-----
Total liabilities and stockholders' equity	\$209,136	\$195,215
	=====	=====

See accompanying notes.

4

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

Thousands of Dollars	Common Stock	Par value	Additional paid in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
	Number of Shares				
Balance, January 1, 2002, Restated	15,317	\$154	\$ 40,111	\$ 36,139	\$ (5,422)
Shares issued	24	--	148	--	--
Net income	--	--	--	1,848	--
Dividends declared	--	--	--	(1,227)	--

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Other comprehensive loss	--	--	--	--	(194)
Balance, March 31, 2002, Restated	15,341	\$154	\$ 40,259	\$ 36,760	\$ (5,616)
Balance, January 1, 2003, Restated	15,370	\$154	\$ 40,457	\$ 38,984	\$ (1,687)
Shares issued	11	1	78	--	--
Net income	--	--	--	3,643	--
Dividends declared	--	--	--	(1,230)	--
Other comprehensive income	--	--	--	--	1,798
Balance, March 31, 2003, Restated	15,381	\$155	\$ 40,535	\$ 41,397	\$ 111

See accompanying notes.

5

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

Thousands of Dollars	Three Months Ended	
	2003	2002
<b>Operating Activities:</b>		
Net income	\$ 3,643	\$ 1,848
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	3,079	2,796
Minority interest in consolidated subsidiary	534	668
Restructuring costs	--	78
Changes in operating assets and liabilities:		
Accounts receivable	(9,416)	(5,996)
Inventories	(1,833)	1,578
Other current assets	(398)	(558)
Other assets	(1,477)	2
Accounts payable	403	(1,371)
Income taxes payable	3,014	1,421
Other liabilities	(361)	600
Net cash provided (used) by operating activities	(2,812)	1,066
<b>Investing Activities:</b>		
Acquisition of property, plant, and equipment	(2,071)	(849)
Net cash used by investing activities	(2,071)	(849)
<b>Financing Activities:</b>		
Proceeds from long-term debt	--	1,710
Bank overdraft	2,775	495
Repayment of long-term debt	(83)	(2,132)

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Proceeds from issuance of stock	79	148
Dividends paid	--	(1,227)
	-----	-----
Net cash provided (used) by financing activities	2,771	(1,006)
	-----	-----
Effect of exchange rate changes	196	(31)
<b>Net Change in Cash and Cash Equivalents</b>	(1,916)	(820)
<b>Cash and Cash Equivalents at Beginning of Period</b>	5,144	3,024
	-----	-----
<b>Cash and Cash Equivalents at End of Period</b>	\$ 3,228	\$ 2,204
	=====	=====

See accompanying notes.

6

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**NN, Inc.**  
**Notes To Consolidated Financial Statements**

**Note 1. Restatement**

The Company has restated its Consolidated Financial Statements for the fiscal quarter ended March 31, 2003 and 2002, 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"). These restatements had no material effect on the Company's reported net sales, gross profit, income from operations, net income, earnings per share or cash flows for the three month periods ended March 31, 2003 and 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 \$7,999 and \$7,421 at March 31, 2003 and December 31, 2002, respectively, goodwill has been reduced \$4,476 and \$4,308 at March 31, 2003 and December 31, 2002, respectively, and paid-in-capital increased \$9,270 at March 31, 2003 and December 31, 2002, respectively, from amounts previously reported. Comprehensive income has also been restated for the foreign currency translation effects of these adjustments.

In the previously issued December 31, 2002 Consolidated Financial Statements, when the Company acquired the 23% interest in Euroball held by INA/FAG in December 2002, the excess of minority interest in consolidated subsidiaries over the December 2002 purchase price was recorded as a non-taxable gain in the amount of approximately \$5,904 in the fourth quarter of 2002. As restated in the accompanying Consolidated Financial Statements, the non-taxable gain has been excluded and the excess of the purchase price over the fair value of INA/FAG's 23% interest in the net assets of Euroball was allocated to goodwill. The

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resulting impact to the Consolidated Financial Statements is an increase to goodwill of approximately \$1,517 and a decrease in retained earnings of approximately \$5,904 at December 31, 2002 and March 31, 2003, and reversal of the previously recorded \$5,904 gain in the Consolidated Statement of Income and Comprehensive Income for the year ended December 31, 2002.

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 March 31, 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. 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.

7

**Effect on selected Consolidated Financial Statement data at December 31, 2002, and at March 31, 2003, March 31, 2002 and for the three month periods then ended.**

### Selected Consolidated Balance Sheet Data March 31, 2003 (In thousands)

	As Previously Reported	As Restated
Goodwill	\$ 42,675	\$ 39,715
Total assets	212,096	209,136
Total liabilities	134,937	113,950
Minority interest in consolidated subsidiaries	20,987	12,988
Additional paid-in capital	31,265	40,535
Retained earnings	47,301	41,397
Accumulated other comprehensive (loss) income	(1,562)	111
Total stockholders' equity	77,159	82,198
Total liabilities and stockholders' equity	212,096	209,136

### Selected Consolidated Balance Sheet Data December 31, 2002 (In thousands)

	As Previously Reported	As Restated
Goodwill	\$ 42,166	\$ 39,374
Total assets	198,007	195,215
Total liabilities	124,728	105,022
Minority interest in consolidated subsidiaries	19,706	12,285
Additional paid-in capital	31,187	40,457
Retained earnings	44,888	38,984
Accumulated other comprehensive loss	(2,950)	(1,687)



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Total stockholders' equity	73,279	77,908
Total liabilities and stockholders' equity	198,007	195,215

**Selected Consolidated Statement of Income and Comprehensive Income Data**  
**Three months ended March 31, 2003**  
(In thousands)

	As Previously Reported	As Restated
Foreign currency translation	\$ 1,388	\$ 1,798
Comprehensive income	5,031	5,441

**Selected Consolidated Statement of Income and Comprehensive Income Data**  
**Three months ended March 31, 2002**  
(In thousands)

	As Previously Reported	As Restated
Foreign currency translation	\$ (80)	\$ (194)
Comprehensive income	1,768	1,654

8

**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 month periods ended March 31, 2003 and 2002, the Company's financial position at March 31, 2003 and December 31, 2002, and the cash flows for the three month periods ended March 31, 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.

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. 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 quarter 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**

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The Company has 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, the Company's 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.

As of March 31, 2003, the fair value of the swap was a loss of approximately \$539,000, which is recorded in other non-current liabilities. The change in fair value during the three month period ended March 31, 2003 and 2002 was a loss of approximately \$104,000 and a gain of approximately \$56,000, respectively, which have been included as a component of other income.

#### **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>March 31, 2003 (Unaudited)</b>	<b>Dec. 31, 2002</b>
	-----	-----
Raw materials	\$ 5,864	\$ 5,400
Work in process	5,522	5,139
Finished goods	14,468	13,065
Less inventory reserves	(260)	(202)
	-----	-----
	\$25,594	\$23,402
	=====	=====

Inventories on consignment at customer locations as of March 31, 2003 and December 31, 2002 were \$2,458 and \$3,093, respectively.

#### **Note 5. Net Income Per Share**

	<b>Three Months Ended March 31,</b>	
<b>Thousands of Dollars, Except Share and Per Share Data</b>	<b>2003</b>	<b>2002</b>
	-----	-----

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Net income	\$ 3,643	\$ 1,848
Adjustments to net income	--	--
	-----	-----
Net income	\$ 3,643	\$ 1,848
	=====	=====
Weighted average basic shares	15,378,313	15,340,806
Effect of dilutive stock options	195,881	393,904
	-----	-----
Weighted average dilutive shares	15,574,194	15,734,710
	=====	=====
Basic net income per share	\$ 0.24	\$ 0.12
	=====	=====
Diluted net income per share	\$ 0.23	\$ 0.12
	=====	=====

Excluded from the shares outstanding for each of the three month periods ended March 31, 2003 and 2002 were 39,800 and 0 antidilutive options, respectively, which had exercise prices ranging from \$9.75 to \$10.26 as of March 31, 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 ("Euroball") and Plastic and Rubber Components. The Domestic Ball and Roller Segment is comprised of two manufacturing facilities in the eastern United States. The Euroball Segment was acquired in July 2000 and is comprised of manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany and Pinerolo, Italy. All of the facilities in the Domestic Ball and Roller and Euroball Segment are engaged in the production of precision balls and rollers used 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, 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 this quarterly report on Form 10-Q/A. The businesses and methods of calculation comprising this segment have not changed.

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

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Thousands of Dollars	2003			2002		
	Domestic Ball & Roller	Restated Euroball	Plastic and Rubber Components	Domestic Ball & Roller	Restated Euroball	Plastic and Rubber Components
Revenues from external customers	\$ 14,249	\$ 28,835	\$ 14,525	\$ 13,203	\$ 21,725	\$ 12,272
Segment pretax profit	1,980	3,729	940	998	2,351	672
Segment assets	61,435	87,721	59,980	65,982	62,800	57,026

**Note 7. Acquisitions and Joint Ventures**

On December 20, 2002, we acquired the 23 percent interest in NN Euroball, ApS ("Euroball") held by INA/FAG. Euroball was formed in 2000 by the Company, FAG Kugelfischer George Schaefer AG, which was subsequently acquired by INA - Schaeffler KG (collectively, "INA/FAG"), and AB SKF ("SKF"). 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. Following the closing of the transaction, we own 77 percent of the outstanding shares of Euroball and SKF owns the remaining 23 percent. SKF consented to our purchase of INA/FAG's interest pursuant to the terms of the Euroball Shareholder Agreement. SKF has the right, beginning January 1, 2003 to require us to purchase its interest in Euroball, based on a formula price detailed in the Euroball Shareholder Agreement. On May 2, 2003, we acquired the 23 percent interest in Euroball held by SKF, see Note 11.

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 Charges**

In September of 2001, the Company announced that it would close its Walterboro, South Carolina ball manufacturing facility as part of its 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 the Company's two domestic ball facilities in Erwin, Tennessee and Mountain City, Tennessee. The Company recorded restructuring costs of \$62,000 for additional severance payments during the quarter ended March 31, 2002. There were no restructuring costs recorded for the quarter ended March 31, 2003.

The Company's Euroball subsidiary incurred restructuring charges of \$16,000 for the quarter ended March 31, 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 during 2001 and 2002 were paid during the quarter ended March 31, 2002 and there are no remaining accrued restructuring costs included in other current liabilities as of March 31, 2002 and March 31, 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

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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.

11

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The effective date of Statement No. 142 is January 1, 2002. As of the date of adoption, the Company 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, the Company's accounting policies for goodwill and other intangibles changed on January 1, 2002, as described below:

**Goodwill:** The Company 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:** The Company recognizes 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. The Company 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.

The Company 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, the Company estimated the fair values of the reporting units using a method that incorporates valuations derived from EBITDA multiples based upon market multiples and recent capital market transactions and also incorporates 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. As of March 31, 2003, the carrying amounts of goodwill by reporting units are as follows: \$26.1 million for the Plastics and Rubber Components Segment and \$13.6 million for the Euroball Segment. Since December 31, 2002, the increase in goodwill of \$0.3 million is principally due to foreign currency translation adjustments at the Euroball Segment.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting For Asset Retirement Obligations." This Statement requires

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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. The Company 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 the Company at the beginning of fiscal year 2003, with the provisions related to SFAS No. 13 for transactions occurring after May 15, 2002. The Company 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.

12

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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 statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the provisions of SFAS 123, which encourages but does not require a fair value based method of accounting for stock compensation plans. The Company has elected to continue accounting for its stock compensation plan using the intrinsic value based method under APB Opinion No. 25 and, accordingly, has not recorded compensation expense for each of the three months ended March 31, 2003 and March 31, 2002, except as discussed above. Had compensation cost for the Company's stock compensation plan been determined based on the fair value at the option grant dates, the Company's net income and earnings per share would have been reduced to the proforma amounts indicated below:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2003</b>	<b>2002</b>
	-----	-----
Net income - as reported	\$3,643	\$1,848
Stock based compensation costs, net of income tax, included in net income as reported	--	--
Stock based compensation costs, net of income		

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tax, that would have been included in net income if the fair value method had been applied	10	14
	-----	-----
Net income - proforma	\$3,633	\$1,834
	=====	=====
Earnings per share - as reported	\$ 0.24	\$ 0.12
Stock based compensation costs, net of income tax, included in net income as reported	--	--
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 - proforma	\$ 0.24	\$ 0.12
	=====	=====
Earnings per share-assuming dilution - as reported	\$ 0.23	\$ 0.12
Stock based compensation costs, net of income tax, included in net income as reported	--	--
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	\$ 0.23	\$ 0.12
	=====	=====

The fair value of each option grant was estimated based on actual information available through March 31, 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 March 31, 2003 and 2002, respectively
Dividend yield	3.66% and 2.91% at March 31, 2003 and 2002, respectively
Volatility	50.11% and 40.2% at March 31, 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.

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

On July 20, 2001, the Company entered into a syndicated loan agreement with AmSouth Bank ("AmSouth") as the administrative agent for the lenders, for a

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senior non-secured revolving credit facility of up to \$25 million, expiring on July 25, 2003 and a senior non-secured term loan for \$35 million expiring on July 1, 2006. On July 12, 2002, the Company 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. Additionally, on July 31, 2002, the Company 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 (1.23% at March 31, 2003) plus an applicable margin of 0.75% to 2.00% based upon calculated financial ratios. The loan agreement contains customary financial and non-financial covenants. Such covenants specify that the Company must maintain certain liquidity measures and limits the amount of capital expenditures we may make in any fiscal year. The Company's ownership in NN Euroball ApS has been pledged as collateral. The Company was in compliance with all loan covenants as of March 31, 2003. In connection with the new \$90 million syndicated credit facility entered into on May 1, 2003 this credit facility was repaid, see Note 11.

In connection with the Euroball transaction the Company and NN Euroball ApS, entered into a Facility Agreement with a bank to provide up to Euro 36 million in Term Loans and Euro 5 million in revolving credit loans. The Company 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 were secured by inventory and accounts receivable and bear interest at EURIBOR (2.52% at March 31, 2003) plus an applicable margin between 0.8% and 2.25% based upon financial ratios. The shareholders of NN Euroball ApS have provided guarantees for the Facility Agreement. Euroball was in compliance with all loan covenants at March 31, 2003. Amounts outstanding under the Facility Agreement are secured by the stock of certain subsidiaries, inventory and accounts receivable of NN Euroball ApS. In connection with the new \$90 million syndicated credit facility entered into on May 1, 2003 this credit facility was repaid, see Note 11.

### **Note 11. Subsequent Events**

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 (\$15.5 million). Euroball was formed in 2000 by the Company, FAG Kugelfischer George Shaefer AG, which was subsequently acquired by INA - Schaeffler KG (collectively, "INA/FAG"), and AB SKF ("SKF"). Upon consummation of this transaction, we became the sole owner of Euroball.

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 22.2 million Euros (\$25.0 million), for the 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 operations in Veenendaal, The Netherlands, SKF purchased 700,000 shares of our common stock from us for an aggregate purchase price of approximately \$6.2 million which was applied to the purchase of SKF's Veenendaal, The Netherlands operations.

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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 (1.31% at April 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 (1.31% at April 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 (2.57% at April 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 agreement is un-collateralized except for the pledge of stock of certain foreign subsidiaries.

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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 fiscal quarter ended March 31, 2003 and 2002, 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"). These restatements had no material effect on the Company's reported net sales, gross profit, income from operations, net income, earnings per share or cash flows for the three month periods ended March 31, 2003 and 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 \$8.0 million and \$7.4 million at March 31, 2003 and December 31, 2002, respectively, goodwill has been reduced \$4.5 million and \$4.3 million at March 31, 2003 and December 31, 2002, respectively, and paid-in-capital increased \$9.3 million at March 31, 2003 and December 31, 2002, respectively, from amounts previously reported. Comprehensive income has also been restated for the foreign currency translation effects of these adjustments.

In the previously issued December 31, 2002 Consolidated Financial Statements,

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when the Company acquired the 23% interest in Euroball held by INA/FAG in December 2002, the excess of minority interest in consolidated subsidiaries over the December 2002 purchase price was recorded as a non-taxable gain in the amount of approximately \$5.9 million in the fourth quarter of 2002. As restated in the accompanying Consolidated Financial Statements, the non-taxable gain has been excluded and the excess of the purchase price over the fair value of INA/FAG'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 a decrease in retained earnings of approximately \$5.9 million at December 31, 2002 and March 31, 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 March 31, 2003 and December 31, 2002.

### Results of Operations

#### Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2002

*Net Sales.* Net sales increased by approximately \$10.4 million or 22.1% from \$47.2 million for the first quarter of 2002 to \$57.6 million for the first quarter of 2003. By segment, sales increased \$1.0 million, \$2.3 million and \$7.1 million for the Domestic Ball and Roller Segment, the Plastic and Rubber Components Segment and the Euroball Segment, respectively. Within the Domestic Ball and Roller Segment and the Plastic and Rubber Components Segment the sales increases were principally related to increased demand. Within the Euroball Segment, \$5.5 million of the increase is related to currency impacts

16

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while the remaining \$1.6 million increase is due to increased product demand.

*Gross Profit.* Gross profit increased by \$3.2 million or 27.4% from \$11.7 million for the first quarter of 2002 to \$14.9 million for the first quarter of 2003. By segment, gross profit increased \$0.9 million, \$0.2 million and \$2.1 million for the Domestic Ball and Roller Segment, the Plastic and Rubber Components Segment and the Euroball Segment, respectively. Capitalized costs related to finished goods inventory increases and sales increases contributed \$0.9 million of the increase in the Domestic Ball and Roller Segment. Increased product demand, new sales programs offset by impacts of inventory decreases and insurance expenses in the Plastic and Rubber Components Segment contributed \$0.2 million of the increase. Additionally, volume increases and currency impacts contributed \$0.7 million and \$1.4 million, respectively, in the Euroball Segment. As a percentage of net sales, gross profit increased from 24.7% for the first quarter of 2002 to 25.8% for the first quarter of 2003.

*Selling, General and Administrative Expenses.* Selling, general and administrative costs increased by \$0.2 million, or 3.9%, from \$4.5 million in the first quarter of 2002 to \$4.6 million in first quarter of 2003. Currency impacts in the Euroball segment resulted in a \$0.4 million increase. Offsetting this increase was decreased spending of \$0.2 million related to advisory service expenses incurred by the Company associated with the previously announced desire of certain original founders of the Company to diversify and liquidate their holdings in the Company' stock in the first quarter of 2002. As a percentage of net sales, selling, general and administrative expenses decreased from 9.5% in the first quarter of 2002 to 8.0% in the first quarter of 2003.

*Depreciation and Amortization.* Depreciation and amortization expenses increased

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by \$0.3 million, or 10.1%, from \$2.8 million in the first quarter of 2002 to \$3.1 million in the first quarter of 2003. Currency impacts in the Euroball Segment resulted in a \$0.3 million increase. As a percentage of sales, depreciation and amortization decreased from 5.9% in the first quarter of 2002 to 5.3% in first quarter of 2003.

*Restructuring and Impairment Costs.* Restructuring and impairment costs decreased by \$0.1 million from \$0.1 million for the first quarter of 2002 to \$0.0 million in the first quarter of 2003. A charge of \$0.1 million was recorded in the first quarter of 2002 principally associated with employee severance costs related to the closing of the Walterboro, South Carolina facility. Restructuring and impairment charges were 0.2% of sales in the first quarter of 2002 and 0.0% of sales in the first quarter of 2003.

*Interest Expense.* Interest expense decreased by \$0.2 million from \$0.7 million in the first quarter of 2002 to \$0.5 million in the first quarter of 2003. A decrease of \$0.3 million is principally attributed to decreased interest rates and decreased average debt levels. Offsetting this decrease was interest expense of \$0.1 million related to debt incurred as a result of the previously announced purchase by the Company of the 23% interest in Euroball held by INA/FAG on December 20, 2002. As a percentage of net sales, interest expense decreased from 1.4% in the first quarter of 2002 to 0.9% in first quarter of 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

*Minority Interest in Consolidated Subsidiary.* Minority interest of consolidated subsidiary decreased \$0.1 million from \$0.6 million in the first quarter of 2002 to \$0.5 million in the first quarter of 2003. This decrease is due entirely to the Euroball joint venture, which the Company has been required to consolidate since its formation, August 1, 2000. During the first 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 first quarter of 2003, minority interest in consolidated subsidiary represents the 23% of the shares of the joint venture held by the remaining minority partner as a result of the December 20, 2002 purchase by the Company of the 23% interest in Euroball held by INA/FAG. At March 31, 2003, the Company owned 77% of the shares of the joint venture with the remaining minority partner owning 23%. On May 2, 2003, we purchased the remaining 23 percent interest in Euroball, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments", herein. 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 quarter of 2002 and the first quarter of 2003).

*Net Income.* Net income increased \$1.8 million, or 97.1%, from \$1.8 in the first quarter of 2002 to \$3.6

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million in the first quarter of 2003. As a percentage of net sales, net income increased from 3.9% in the first quarter of 2002 to 6.3% during the first quarter of 2003.

### **Recent Developments**

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 (\$15.5

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million). Euroball was formed in 2000 by the Company, FAG Kugelfischer George Shaefer AG, which was subsequently acquired by INA - Schaeffler KG (collectively, "INA/FAG"), and AB SKF ("SKF"). Upon consummation of this transaction, we became the sole owner of Euroball.

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 22.2 million Euros (\$25.0 million), for the 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 operations in Veenendaal, The Netherlands, SKF purchased 700,000 shares of our common stock from us for an aggregate purchase price of approximately \$6.2 million which was applied to the purchase of SKF's Veenendaal, The Netherlands operations.

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 (1.31% at April 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 (1.31% at April 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 (2.57% at April 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 agreement is un-collateralized except for the pledge of stock of certain foreign subsidiaries.

### **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 (1.31% at April 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 (1.31% at April 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 (2.57% at April 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 agreement is un-collateralized except for the pledge of stock of certain foreign subsidiaries.

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Since July 20, 2001, 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 (1.23% at March 31, 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 limits the amount of capital expenditures we may make in any fiscal year. 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. Additionally, the terms of our 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. We were in compliance with all such covenants as of March 31, 2003.

In connection with the Euroball transaction we and NN Euroball ApS, 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 1,000 (\$943) under the revolving credit facility. Amounts outstanding under the Facility Agreement were secured by inventory and accounts receivable and bore interest at EURIBOR (2.52% at March 31, 2003) plus an applicable margin between 0.8% and 2.25% based upon financial ratios. The shareholders of NN Euroball ApS 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. Euroball was in compliance with all such covenants at March 31, 2003. Amounts outstanding under the Facility Agreement were secured by the stock in certain subsidiaries, inventory and accounts receivable of NN Euroball ApS.

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 foreign customers (other than foreign customers that have entered into an inventory management program with the Company) generally provide that payments are due within either 90 or 120 days following the date of shipment. Our net sales have historically been of a seasonal nature due to our relative percentage of European business coupled with many foreign customers ceasing 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 or foreign exchange restrictions. 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 March 31, 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 \$24.9 million at March 31, 2003 as compared to \$21.2 million at December 31, 2002. The ratio of current assets to current liabilities increased from 1.53:1 at December 31, 2002 to 1.51:1 at March 31, 2003. Cash flow from operations decreased to (\$2.8) million during the first quarter of 2003 from \$1.1 million during the first quarter of 2002.

During 2003, we plan to spend approximately \$9.4 million on capital expenditures (of which approximately \$2.1 million has been spent through March 31, 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

19

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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.

20

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#### **The Euro**

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

#### **Seasonality and Fluctuation in Quarterly Results**

The Company's net sales historically have been of a seasonal nature due to a significant portion of the Company's sales being 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 Euroball 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 adjustments that may be modified up or down for changes in material costs. These agreements expire during 2006.

#### **Critical Accounting Policies**

Our significant accounting policies, including the assumptions and judgment underlying them, are disclosed in the December 31, 2002 Form 10-K, as amended, 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 risks of 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:

23

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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 quarter of 2003, approximately 50% at the \$10.4 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

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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

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- 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. Domestically, at March 31, 2003, these borrowings included a \$25 million senior, non-secured floating rate revolving credit facility which was used to maintain liquidity and fund our business operations. In Europe, at March 31, 2003, Euroball had a 5.0 million Euro floating rate credit facility, and a 6.0 million Euro floating rate secured term loan. At March 31, 2003, we had \$48.9 million outstanding under the domestic revolving credit facility and Euroball had 4.0 million Euro (\$4.3 million) outstanding under the Euroball credit facility. At March 31, 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 \$0.5 million. In connection with a variable EURIBOR rate debt financing in July 2000 our majority owned subsidiary, NN Euroball ApS entered into an interest rate swap with a notional amount of Euro 12.5 million for the purpose of fixing the interest rate on a portion of their debt financing. The interest rate swap provides for 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. 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

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Luxembourg, S.A., see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments", herein. A one-percent increase in the interest rate charged on our new credit facility would result in interest expense increasing annually by approximately \$0.9 million. 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. We, primarily in our Euroball Segment, bill and receive payment 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 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 March 31, 2003.

**Item 4. Controls and Procedures**

- a) As of March 31, 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 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

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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. Exhibits and Reports on Form 8-K.**

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

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of 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 on February 25, 2003 announcing its fourth quarter and fiscal year ended December 31, 2002 financial results.

The Company filed a Form 8-K on March 11, 2003 announcing payment of a regular quarterly cash dividend.

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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.

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