NN INC
Form 10-Q
November 09, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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
62-1096725
(State or other jurisdiction of incorporation or organization) (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 xNo o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 1, 2010, there were 16,616,074 shares of the registrant's common stock, par value $0.01 per share, outstanding.

NN, Inc.
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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In Thousands of Dollars, Except Per Share Data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales	$ 90,996	$ 66,110	$ 269,029	$ 181,119
Cost of products sold (exclusive of depreciation and amortization shown separately below)	75,066	58,981	217,403	169,184
Selling, general and administrative	7,316	6,465	22,357	19,779
Depreciation and amortization	4,189	5,255	15,152	15,773
(Gain)/loss on disposal of assets	676	(13)	679	(41)
Restructuring and impairment charges	823	4,070	2,060	4,742
Income (loss) from operations	2,926	(8,648)	11,378	(28,318)
Interest expense	1,775	1,833	5,258	4,719
Write-off of unamortized debt issue cost	--	--	130	604
Other expense (income), net	1,407	(11)	(1,569)	(135)
Income (loss) before provision (benefit) for income taxes	(256)	(10,470)	7,559	(33,506)
Provision (benefit) for income taxes	752	(1,487)	3,221	(1,532)
Net income (loss)	(1,008)	(8,983)	4,338	(31,974)
Other comprehensive income (loss):				
Foreign statement translation income/(loss)	9,825	3,464	(5,095)	3,851
Comprehensive income (loss)	$ 8,817	$ (5,519)	$ (757)	$ (28,123)
Basic income (loss) per common share:	$ (0.06)	$ (0.55)	$ 0.26	$ (1.97)
Weighted average shares outstanding	16,526	16,268	16,426	16,268

Diluted income (loss) per common share:	$ (0.06)	$ (0.55)	$ 0.26	$ (1.97)
Weighted average shares outstanding	16,526	16,268	16,537	16,268

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

NN, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In Thousands of Dollars)	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash	$ 7,230	$ 8,744
Accounts receivable, net of allowance for doubtful accounts of $474 and $473, respectively	66,823	49,412
Inventories, net	36,588	33,275
Income tax receivable	503	3,196
Other current assets	6,577	3,656
Total current assets	117,721	98,283
Property, plant and equipment, net	117,481	129,715
Goodwill, net	8,638	9,278
Intangible assets, net	1,044	1,506
Other assets	3,873	3,870
Total assets	$ 248,757	$ 242,652
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 44,573	$ 38,048
Accrued salaries, wages and benefits	13,964	14,469
Current maturities of long-term debt	65,684	9,405
Income taxes payable	2,551	--
Other current liabilities	8,683	6,567
Total current liabilities	135,455	68,489
Deferred tax liabilities	3,454	3,558
Long-term debt, net of current portion	17,143	77,558
Accrued pension	13,427	14,308
Other non-current liabilities	1,792	1,936
Total liabilities	171,271	165,849
Total stockholders' equity	77,486	76,803
Total liabilities and stockholders' equity	$ 248,757	$ 242,652

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

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

	Common Stock					
(In Thousands of Dollars and Shares)	Number Of Shares	Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehen-sive Income	Total
Balance, January 1, 2010	16,268	$ 163	$ 49,861	$ 259	$ 26,520	$ 76,803
Net income	--	--	--	4,338	--	4,338
Stock option expense	--	--	126	--	--	126
Shares issued for options	32	--	213	--	--	213
Stock compensation expense	249	3	1,098	--	--	1,101
Foreign statement translation loss	--	--	--	--	(5,095)	(5,095)
Balance, September 30, 2010	16,549	$ 166	$ 51,298	$ 4,597	$ 21,425	$ 77,486

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

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

(In Thousands of Dollars)	Nine Months Ended September 30, 2010	2009
Operating Activities:		
Net income (loss)	$ 4,338	$ (31,974)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	15,152	15,773
Amortization of debt issue costs	1,102	787
Write-off of unamortized debt issue cost	130	604
(Gain)/loss on disposal of assets	679	(41)
Deferred income tax expense (benefit)	(50)	5,289
Non-Cash restructuring charges	--	3,924
Share-based compensation expense	1,227	270
Non-cash interest and other expenses	--	89
Changes in operating assets and liabilities:		
Accounts receivable	(18,133)	4,152
Inventories	(4,652)	20,206
Accounts payable	7,673	(7,686)
Other assets and liabilities	5,672	(1,843)
Net cash provided by operating activities	13,138	9,550
Investing Activities:		
Acquisition of property, plant and equipment	(8,567)	(3,968)
Proceeds from disposals of property, plant and equipment	28	529
Net cash used by investing activities	(8,539)	(3,439)
Financing Activities:		
Repayment of short-term debt	(22)	(2,693)
Principal payment on capital lease	(42)	(38)
Repayment of long term debt	(4,114)	--
Proceeds from issuance of stock	213	--
Debt issuance cost paid	(428)	(3,293)
Net cash used by financing activities	(4,393)	(6,024)
Effect of exchange rate changes on cash	(1,720)	401
Net Change in Cash	(1,514)	488
Cash at Beginning of Period	8,744	11,052
Cash at End of Period	$ 7,230	$ 11,540
Supplemental schedule of non-cash investing and financing activities:		

Reduced note payable to customer with offsetting reduction to accounts receivable ($411 in 2009) and an increase to interest expense ($50 in 2009)	$ --	$ 361
Sale of $2,230 in property, plant and equipment and $737 in inventory for two notes receivable with aggregate carrying values of $2,279	$ 688	$ --

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

NN, Inc.
Notes To Condensed Consolidated Financial Statements
(In Thousands, Except Per Share Data)
(unaudited)

Note 1. Interim Financial Statements

The accompanying condensed consolidated financial statements of NN, Inc. have not been audited, except that the balance sheet at December 31, 2009 is derived from the Company's audited consolidated financial statements. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to fairly state the results of operations for the three and nine month periods ended September 30, 2010 and 2009, the Company's financial position at September 30, 2010 and December 31, 2009, and the cash flows for the nine month periods ended September 30, 2010 and 2009. These adjustments are of a normal recurring nature and are, in the opinion of management, necessary for fair statement of the financial position and operating results for the interim periods. As used in this Quarterly Report on Form 10-Q, the terms "NN", "the Company", "we", "our", or "us" mean NN, Inc. and its subsidiaries.

Certain information and footnote disclosures normally included in the consolidated 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. These unaudited, condensed and consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our most recent annual report on Form 10-K for the year ended December 31, 2009 which we filed with the Securities and Exchange Commission on March 31, 2010.

The Company experienced a significant loss of revenue and sustained significant loss of income during the global economic recession that began to impact the Company in the fourth quarter of 2008 through the year ended December 31, 2009. During this time frame, the Company sustained a significant weakening of its financial condition. During the nine months ended September 30, 2010, the effects of the global recession on our Company have lessened significantly. As the effects of the global recession have lessened, our operating results have improved during the first nine months of 2010. Based on the results of the first nine months of 2010, the Company now expects to meet existing financial covenants and as a result, the probability of the Company's being in default has been significantly lessened since the beginning of the current year. However, should the Company once again be impacted by an economic downturn, the probability of the Company's being in default at some point in the future could increase.

The results for the three and nine month periods ended September 30, 2010 are not necessarily indicative of results for the year ending December 31, 2010 or any other future periods.

Note 2. Restructuring Charges and Other

During the first quarter of 2010, we announced the closure of the Tempe (Arizona) Plant. We ceased operations at this location on August 31, 2010. The closure impacted approximately 130 employees. Current economic conditions coupled with the long-term manufacturing strategy for our Whirlaway business necessitated a consolidation of our manufacturing resources into existing facilities in Ohio. We incurred cash charges of approximately $2,000 in severance, equipment relocation and other closing costs during 2010 related to this closure. During the three and nine month periods ended September 30, 2010, we incurred $381 and $1,518 of severance cost related to the closure. The severance costs were recognized pro-rata over the period from the announcement date until the employees' termination date as continued employment was a requirement to receive severance payments. Additionally, during the three and nine month periods ended September 30, 2010, we incurred $443 and $506 of site closure and other associated costs. In the first quarter of 2010, we incurred $1,000 of accelerated depreciation related to certain fixed assets that were expected to cease to be used due to the Tempe Plant closure. Originally, we had expected to incur up to $3,000 of accelerated depreciation related to this closure. Due to updating our estimate of the salvage value of these assets during the second quarter to reflect market conditions as of that date, we did not expect to incur any additional accelerated depreciation beyond the $1,000 taken. The majority of the fixed assets that ceased to be used as a result of the closure and certain customer orders were sold on August 31, 2010 in exchange for long-term notes receivables. (See footnote 3 of the Notes to Condensed Consolidated Financial Statements).

On November 26, 2008, we announced the closure of our Kilkenny (Ireland) Plant. The closure affected 68 employees and was completed in 2009. During the nine month periods ended September 30, 2010 and 2009, we recorded restructuring charges of $36 and $662 related to site closure costs and relocation of equipment and inventory from this location to other facilities within the Metal Bearing Components Segment.

NN, Inc.
Notes To Condensed Consolidated Financial Statements
(In Thousands, Except Per Share Data)
(unaudited)

During the first quarter of 2009, the Hamilton (Ohio) Plant was closed. This closure affected 11 employees and $130 in severance and other associated closure costs were incurred during the first quarter of 2009. Of this amount, $108 was for employee severance cost which was paid in the second quarter of 2009.

During the third quarter of 2009, we informed our employees of the Veenendaal (The Netherlands) Plant of our intention, due to the global recession, to begin a reorganization of the plant's labor force which covered the elimination of 53 permanent positions or 17% of the workforce at a cost of $3,849. The majority of the severance cost was paid out during the fourth quarter of 2009 and first quarter of 2010 and we did not incur any restructuring costs for this location during the three and nine month periods ended September 30, 2010.

The following table summarizes the 2010 activity related to the four restructuring programs discussed above:

(In Thousands of Dollars)	Reserve Balance at 1/01/2010	Charges	Paid in 2010	Currency Impacts	Reserve Balance at 09/30/2010
Severance and other employee costs	$ 2,382	$ 1,518	$ (3,601)	$ (123)	$ 176
Site closure and other associated cost	--	542	(542)	--	--
Total	$ 2,382	$ 2,060	$ (4,143)	$ (123)	$ 176

Accrued severance and other employee costs are reported within the Accrued salaries, wages and benefits line of the Condensed Consolidated Balance Sheets.

Note 3. Long Term Notes Receivable

Certain property, plant and equipment and inventory of the Tempe Plant was sold on August 31, 2010, the day the Tempe Plant ceased operations, to a newly formed company not affiliated with NN. Property, plant and equipment with a net book value of $2,230 and inventory with a net book value of $737 were sold in exchange for two promissory notes with aggregate fair values of $2,279 (described below as the Tempe Inventory Note and the Tempe Fixed Asset Note).

The Tempe Inventory Note had an original face value of $737, a 24 month term, a 7% interest rate and equal monthly installments of principal and interest. The note is unsecured. As of September 30, 2010, the note had an estimated fair value and carrying value of $688 determined using a discounted cash flow method applying market interest rates for similar types of seller financed promissory notes.

The Tempe Fixed Asset Note had an original face value of $2,500, a 60 month term, a 7% interest rate, interest only payments for 24 months, principal and interest payments totaling $40 per month for the next 36 months followed by a balloon payment of $1,525. The note is secured by a first lien on approximately $1,000 of the assets and a second lien on the remaining assets. As of September 30, 2010, the note had an estimated fair value and carrying value of $1,562 determined using a discounted cash flow method applying market interest rates for similar types of seller financed, partially secured promissory notes. These notes are reported within other current assets for the current portion and other assets for the long-term portion within the Condensed Consolidated Balance Sheets.

NN, Inc.

Notes To Condensed Consolidated Financial Statements
(In Thousands, Except Per Share Data)
(unaudited)

Note 4. Inventories

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

Inventories are comprised of the following (in thousands):

	September 30, 2010	December 31, 2009
Raw materials	$ 12,383	$ 9,742
Work in process	7,840	7,234
Finished goods	17,546	17,963
Less inventory reserves	(1,181)	(1,664)
	$ 36,588	$ 33,275

Inventories on consignment at customer locations as of September 30, 2010 and December 31, 2009 totaled $3,290 and $3,018, respectively.

The inventory valuations above were developed using normalized production capacities for each of our manufacturing locations. Any costs from abnormal excess capacity or under-utilization of fixed production overheads are expensed in the period incurred and are not included as a component of inventory valuation.

Note 5. Net Income (Loss) Per Share

(In Thousands of Dollars, Except Per Share Data)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income (loss)	$ (1,008)	$ (8,983)	$ 4,338	$ (31,974)
Weighted average basic shares outstanding	16,526	16,268	16,426	16,268
Effect of dilutive stock options	--	--	111	--
Weighted average dilutive shares outstanding	16,526	16,268	16,537	16,268
Basic net income (loss) per share	$ (0.06)	$ (0.55)	$ 0.26	$ (1.97)
Diluted net income (loss) per share	$ (0.06)	$ (0.55)	$ 0.26	$ (1.97)

Excluded from the dilutive shares outstanding for the three and nine month periods ended September 30, 2010 were 1,339 and 1,075 anti-dilutive options which had exercise prices ranging from $1.30 to $12.62 and $7.63 to $12.62, respectively. Excluded from the dilutive shares outstanding for the three and nine month periods ended September 30, 2009 were 1,416 anti-dilutive options which had exercise prices ranging from $1.30 to $12.62.

Note 6. Segment Information

The segment information and the accounting policies of each segment are the same as those described in the notes to the consolidated financial statements entitled “Segment Information” and “Summary of Significant Accounting Policies and Practices,” respectively, included in our annual report on Form 10-K for the fiscal year ended December 31, 2009. We evaluate segment performance based on segment net income or loss after income taxes. We account for inter-segment sales and transfers at current market prices. We did not have any significant inter-segment transactions during the three and nine month periods ended September 30, 2010 and 2009.

NN, Inc.
Notes To Condensed Consolidated Financial Statements
(In Thousands, Except Per Share Data)
(unaudited)

(In Thousands of Dollars)	Metal Bearing Components Segment	Precision Metal Components Segment	Plastic and Rubber Components Segment	Corporate and Consolidations	Total
Three Months ended September 30, 2010					
Revenues from external customers	$ 67,584	$ 13,410	$ 10,002	$ --	$ 90,996
Segment net income (loss)	$ 4,900	$ (3,502)	$ 487	$ (2,893)	$ (1,008)
Nine Months ended September 30, 2010					
Revenues from external customers	$ 196,473	$ 43,021	$ 29,535	$ --	$ 269,029
Segment net income (loss)	$ 17,485	$ (6,003)	$ 1,937	$ (9,081)	$ 4,338
Total assets	$ 194,330	$ 31,953	$ 18,884	$ 3,590	$ 248,757

(In Thousands of Dollars)	Metal Bearing Components Segment	Precision Metal Components Segment	Plastic and Rubber Components Segment	Corporate and Consolidations	Total
Three Months ended September 30, 2009					
Revenues from external customers	$ 46,681	$ 11,014	$ 8,415	$ --	$ 66,110
Segment net loss	$ (5,189)	$ (1,106)	$ (338)	$ (2,350)	$ (8,983)
Nine Months ended September 30, 2009					
Revenues from external customers	$ 125,637	$ 33,811	$ 21,671	$ --	$ 181,119
Segment net loss	$ (16,657)	$ (3,464)	$ (2,367)	$ (9,486)	$ (31,974)
Total assets	$ 199,057	$ 30,490	$ 18,411	$ 4,742	$ 252,700

Note 7. Pensions

We have a defined benefit pension plan covering the employees at our Eltmann Plant. The plan is unfunded. There were no prior service costs recognized in the three and nine months ended September 30, 2010 and 2009. We incurred $65 and $195 of interest cost during the three and nine months ended September 30, 2010, respectively, and expect to contribute approximately $260 to the Eltmann Plant pension plan in 2010. As of September 30, 2010, approximately $195 of contributions had been made.

NN, Inc.
Notes To Condensed Consolidated Financial Statements
(In Thousands, Except Per Share Data)
(unaudited)

Severance Indemnity

In accordance with Italian law, the Company has an unfunded severance plan covering our Pinerolo Plant employees under which all employees at that location are entitled to receive severance indemnities upon termination of their employment. The table below summarizes the changes to the severance indemnity for the three and nine month periods ended September 30, 2010 and 2009:

	Three months ended September 30,		Nine months ended September 30,	
(In Thousands of Dollars)	2010	2009	2010	2009
Beginning balance	$ 7,993	$ 7,950	$ 8,015	$ 8,073
Amounts accrued	337	254	912	790
Payments to employees	(158)	(26)	(488)	(366)
Payments to government managed plan	(243)	(178)	(630)	(578)
Currency impacts	(549)	298	(429)	379
Ending balance	$ 7,380	$ 8,298	$ 7,380	$ 8,298

Service and Early Retirement Provisions

We have two plans that cover our Veenendaal Plant employees. One plan provides an award for employees who achieve 25 or 40 years of service and the other plan is an award for employees upon retirement. These plans are both unfunded and the benefits are based on years of service and rate of compensation at the time the award is paid. The table below summarizes the combined changes in the two plans during the three and nine month periods ended September 30, 2010 and 2009.

	Three months ended September 30,		Nine months ended September 30,	
(In Thousands of Dollars)	2010	2009	2010	2009
Beginning balance	$ 719	$ 874	$ 805	$ 852
Service cost	20	67	53	101
Interest cost	64	12	104	35
Benefits paid	(36)	(38)	(75)	(83)
Currency impacts	81	35	(39)	45
Ending balance	$ 848	$ 950	$ 848	$ 950

Note 8. New Accounting Pronouncements

As of September 30, 2010, there are no new accounting pronouncements that are expected to significantly affect the Company.

NN, Inc.
Notes To Condensed Consolidated Financial Statements
(In Thousands, Except Per Share Data)
(unaudited)

Note 9. Long-Term Debt and Short-Term Debt

Long-term debt and short-term debt at September 30, 2010 and December 31, 2009 consisted of the following:

	September 30, 2010	December 31, 2009
Borrowings under our $85,000 revolving credit facility bearing interest at a floating rate equal to LIBOR (0.35% at September 30, 2010) plus an applicable margin of 4.75%, expiring September 20, 2011.	$ 59,970	$ 58,392
Borrowings under our $40,000 aggregate principal amount of senior notes bearing interest at a fixed rate of 8.50% maturing on April 26, 2014. Annual principal payments of $5,714 began on April 26, 2008 and extend through the date of maturity.	22,857	28,571
Total debt	82,827	86,963
Less current maturities of long-term debt	65,684	9,405
Long-term debt, excluding current maturities of long-term debt	$ 17,143	$ 77,558

As of September 30, 2010, we have reclassified the outstanding debt under our revolving credit facility from long-term debt to a current liability as the revolving credit facility expires in less than twelve months on September 20, 2011. We are currently in the process of negotiating a new multi-year revolving credit facility with our existing revolving credit facility lenders at terms that are more favorable than the facility currently in place. While we can make no assurances, we expect to have this new credit agreement in place by the end of 2010 or early in 2011 at which time the revolving credit facility will be reclassified to a long-term liability. If we are unable to obtain a refinancing of our current revolving credit facility at existing or more favorable terms, we will seek alternative financing arrangements which would result in higher interest costs or could cause dilution to our existing shareholders if it were necessary to raise new equity at unfavorable terms.

During the first quarter of 2010, we amended both the revolving credit facility and the senior notes. The primary purpose of these amendments was to re-establish covenant levels through the expiration of the revolving credit facility in September 2011 to reflect our business outlook at that time. The primary financial covenants are the same for both credit agreements through September 2011, the expiration of the revolving credit facility. After September 2011, the covenants for the senior notes revert back to the covenants in the original agreement.

As a result of the amendments, the revolving credit facility was reduced to $85,000 from $90,000 as of the amendment date, and it will reduce further by $1,000 at the end of each of the three fiscal quarters beginning with the December 31, 2010 quarter end and ending with the September 30, 2011 quarter end, after which the total commitment will be $82,000. Neither the commitment amount nor the payment terms of the senior notes were changed. The amendments provide a restriction on restructuring of foreign subsidiaries and removed certain subsidiaries from participation in the credit agreement. Also as a result of the amendments, the interest rate was amended to LIBOR plus an applicable margin of 4.75% from an applicable margin of 4.00%. The interest rate on the senior notes was not changed and remains at 8.5%. Due to the reduction in the credit availability of the revolving credit facility, $130 in unamortized debt issuance costs from the 2009 revolving credit facility amendment were written-off during the first quarter of 2010.

In connection with entering into the amended and restated credit agreements mentioned above, we forecasted levels of revenue and cash flow from operations in 2010 based on recent sales levels at that time, economic conditions, published economic forecasts and input from our major customers that are at lower levels than our normalized historical results prior to the onset of the global recession in the fourth quarter of 2008. These forecasts were used to set new financial and operating covenants in our amended credit facilities through September 2011. For the first nine months of this year, we met or exceeded all covenant levels. We can provide no assurances that we will be in compliance with the existing covenants for the remainder of 2010 through September 2011. The specific covenants to which we are subject and the actual results achieved for the nine month period ended September 30, 2010 are stated below.

NN, Inc.
Notes To Condensed Consolidated Financial Statements
(In Thousands, Except Per Share Data)
(unaudited)

(In Thousands of Dollars) Financial Covenants	Required Covenant Level	Actual Level Achieved
Interest coverage ratio	Not to be less than 1.57 to 1.00 for the period ended September 30, 2010	3.05 to 1.00
Funded indebtedness to capitalization ratio	Not to exceed 0.62 to 1.00 through September 30, 2010	0.52 to 1.00
Minimum EBITDA	Not to be less than $15,106 for the most recently completed four fiscal quarters ended September 30, 2010	$31,781
Capital expenditures	Not to exceed $12,867 for the nine month period ended September 30, 2010	$8,676
Minimum asset coverage ratio	Not to be less than 1.05 to 1.00 as of the last day of any fiscal quarter	1.72 to 1.00
Leverage Ratio	Not to exceed 6.50 to 1.00 for the period ended September 30, 2010.	2.70 to 1.00

Note 10. Goodwill

The changes in the carrying amount of goodwill for the nine month period ended September 30, 2010 are as follows:

Goodwill

(In Thousands of Dollars)	Metal Bearing Components Segment
Balance as of January 1, 2010	$ 9,278
Currency translation impacts	(640)
Balance as of September 30, 2010	$ 8,638

The goodwill balance is tested for impairment on an annual basis during the fourth quarter and between annual tests if a triggering event occurs. During the three and nine month periods ended September 30, 2010, the financial results of the reporting unit with a goodwill balance exceeded the forecasted results used in testing for impairment at December 31, 2009. Thus, as of September 30, 2010, there are no further indications of impairment at this reporting unit.

Note 11. Intangible assets subject to amortization, net of amortization

(In Thousands of Dollars) Metal

	Bearing Components Segment
Balance as of January 1, 2010	$ 606
Amortization	(415)
Currency translation impacts	(47)
Balance as of September 30, 2010	$ 144

Within the Metal Bearing Components Segment, the intangible asset is a contract intangible. This intangible asset was subject to amortization over approximately five years starting in 2006 and amortization expense was to approximate $500 for each of the five years. For the three and nine months ended September 30, 2010, the amortization expense totaled $136 and $415 and accumulated amortization totaled $2,586 at September 30, 2010.

NN, Inc.
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The Precision Metal Components Segment has an intangible asset not subject to amortization of $900 related to the value of the trade names of Whirlaway. There are no indicators of impairment for this indefinite lived intangible asset as of September 30, 2010.

Note 12. Shared-Based Compensation

In the three and nine month periods ended September 30, 2010 and 2009, approximately $27 and $1,227 in 2010 and $72 and $270 in 2009, respectively, of compensation expense was recognized in selling, general and administrative expense for all share-based awards. During the nine month period ended September 30, 2010, we granted 249 shares and 33 share options to non-executive directors, officers and certain other key employees.

We issued the aforementioned 249 shares of our common stock under our 2005 stock incentive plan. The shares were issued on March 17, 2010 and were fully vested at the date of grant. We incurred $1,101 of non-cash compensation expense, which was the entire fair value of the grant, at that date. The fair value of the shares issued was determined by using the grant date price of our common stock.

We incurred $27 and $126 in 2010 and $72 and $270 in 2009, respectively, of stock option expense in the three and nine month periods ended September 30, 2010 and 2009. The fair value of the options cannot be determined by market value, as our options are not traded in an open market. Accordingly, a financial pricing model is utilized to determine fair value. The Company utilizes the Black Scholes model which relies on certain assumptions to estimate an option's fair value.

The following table provides a reconciliation of option activity for the nine month period ended September 30, 2010:

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2010	1,391	$ 9.23		
Granted	33	$ 5.24		
Exercised	(32)	$ 6.35		
Forfeited or expired	(53)	$ 11.56		
Outstanding at September 30, 2010	1,339	$ 9.11	5.4	$ 1,735 (1)
Exercisable at September 30, 2010	1,151	$ 10.00	4.9	$ 897 (1)

(1) The intrinsic value is the amount by which the market price of our stock was greater than the exercise price of any individual option grant at September 30, 2010.

Note 13. Provision for Income Taxes

During the three and nine month periods ended September 30, 2010, we continued to place a valuation allowance on all of the deferred tax assets of our U.S. locations, based on the negative financial performance of our U.S. operations during the global economic recession of 2008 and 2009. The determination to place a valuation allowance on the additional tax benefits recorded by our U.S. based operations during the second quarter of 2009 principally from net operating losses was made based upon the fact that second quarter of 2009 and cumulative 2009 results of these entities were much more unfavorable than originally forecasted. If U.S. operations return to a level of profitability sufficient to utilize these deferred tax assets, they will be used to offset future U.S. based taxable income. If we determine that this is more likely than not, the valuation allowance will be released and deferred tax benefits will be recognized.

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For the three and nine month periods ended September 30, 2010, the difference between the U.S. federal statutory tax rate of 34% and our effective tax rates of negative 294% and 42.6%, respectively, was mainly due to not recognizing tax benefits or expense for our U.S. locations as discussed above. In addition, we did not recognize tax costs at two international locations in which we operate. Prior to 2009, valuation allowances were placed on the net deferred tax assets at these foreign locations. Finally, the effective rate was impacted by non-U.S. based earnings taxed at lower rates. The statutory and effective income tax rates in many of the foreign countries in which we operate are lower than the U.S. federal statutory rate. The table below summarizes the impacts on the effective tax rate for the nine month periods ended September 30, 2010 and 2009.

(In Thousands of Dollars)	Nine Months ended September 30, 2010	Nine Months ended September 30, 2009
Income tax provision (benefit) at the federal statutory rate of 34%	$ 2,570	$ (11,392)
Applied U.S. valuation allowance	2,007	6,215
Increase in foreign valuation allowance	--	1,277
Non-U.S. earnings taxed at lower rates	(1,640)	2,260
Other differences	284	108
Provision (benefit) for income taxes	$ 3,221	$ (1,532)

We do not foresee any significant changes to our unrecognized tax benefits within the next twelve months.

Note 14. Commitments and Contingencies

During 2006, we received correspondence from the Environmental Protection Agency (“EPA”) requesting information regarding a former waste recycling vendor ("AER") used by our former Walterboro, South Carolina facility. AER, located in Augusta, Georgia, ceased operations in 2000 and EPA began investigating its facility. As a result of AER’s operations, soil and groundwater became contaminated. EPA initially contacted fifty-four other companies (“Potentially Responsible Parties” or PRPs”) who also sent waste to AER. Most of these PRPs, including us, have entered into a consent order with EPA to investigate and remediate the site proactively. To date, the PRP Group has submitted a Remedial Investigation, which has been accepted by EPA. In addition, a Feasibility Study has been tentatively approved by EPA. The costs associated with the chosen remediation are estimated to be approximately $10,000 of which our allocated share is approximately $143 which has been fully accrued for as of September 30, 2010. While there can be no assurances, we believe that the $143 is the maximum amount for which we will be liable under the tentatively accepted remediation plan.

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

Due to the impacts of the global economic recession and the resulting reduction in revenue and operating losses, our Eltmann, Germany Plant sustained a significant weakening of its financial condition. As a result, this subsidiary could reach a point of technical insolvency or illiquidity within the next 12 months. If this occurs, local laws could require the subsidiary to file for bankruptcy unless we provide additional support in the form of financial guarantees or additional funding of operations. During the first quarter of 2010, we took certain actions in this regard including subordination of certain intercompany obligations and committing to additional equity contributions. If the Eltmann Plant should be required to file for bankruptcy, we could potentially lose the value of the assets of the Eltmann Plant of approximately $8,761 at September 30, 2010 but could also be released from certain liabilities totaling $9,028 at September 30, 2010. We believe that in the event of bankruptcy, there could be a temporary disruption of normal product flow to customers, but that it is unlikely that such an event would have a long-term significant impact given the current level of additional capacity within our European plants.

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Note 15. Property Plant and Equipment

During the first quarter of 2010, we incurred $1,000 of accelerated depreciation to adjust certain assets that ceased to be used as of part of the Tempe Plant closure, to the new estimated salvage values. (See footnotes 2 and 3 of the Notes to Consolidated Financial Statements).

During the third quarter of 2010, we sold machinery that ceased to be used at our Tempe Plant with a net book value of $2,230 in exchange for promissory notes receivable with carrying values and estimated fair values of $1,562. (See Note 3 of the Notes to Consolidated Financial Statements).

During the first quarter of 2009, the land and building of the former Hamilton, Ohio Plant of the Precision Metal Components Segment were sold for proceeds of $508, which resulted in no gain or loss from sale.

Note 16. Fair Value of Financial Instruments

The fair value of the Company's fixed rate long-term borrowings is calculated by using a discounted cash flow analysis factoring in current market borrowing rates for similar types of borrowing arrangements under our credit profile. The current market borrowing rates are Level 2 inputs under the U.S. GAAP fair value hierarchy. The carrying amounts and fair values of the Company's long-term debt are in the table below:

	September 30, 2010		December 31, 2009	
(In Thousands of Dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable rate long-term debt	$ 59,970	$ 59,970	$ 58,392	$ 58,392
Fixed rate long-term debt	$ 22,857	$ 23,225	$ 28,571	$ 27,787

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Risk Factors

Our risk factors are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under Item 1.A. "Risk Factors." There have been no material changes to these risk factors since December 31, 2009.

Economic Impacts on the Three and Nine Month Periods ended September 30, 2010

During the three and nine month periods ended September 30, 2010, sales showed significant improvement from the dramatic reductions witnessed in the first nine months of 2009 due to the worldwide recession. Sales increased 45% and 52%, respectively, for the three and nine month periods ended September 30, 2010 from the three and nine month periods ended September 30, 2009, excluding the effects of exchange rates.

We believe the increase in sales that occurred during the first three quarters of 2010 versus the first three quarters of 2009 was due both to customers adopting more normalized ordering patterns and increased demand in the end markets we serve. It is unclear what portion of the increase was due to customer ordering patterns versus market demand. We believe during 2009 that demand for our products had decreased more than actual demand in the end markets we serve. We referred to this as the "de-stocking effect" and believed it was due to reduction in overall inventory levels throughout the supply chain. We are uncertain to what extent the change of overall stock levels within the supply chains we serve had on the first three quarters of 2010. Furthermore, we are unsure to what extent our customers' demand in the remaining quarter of 2010 will be affected by the management of inventory levels within the supply chain.

The 45% and 52% increases in sales volume were the main driver of the improvement in net income during the three and nine month periods ended September 30, 2010, respectively. Despite the increase in sales volume during the first three quarters of 2010, we continued to aggressively manage employment levels, production levels, and discretionary spending. In addition, we have reduced fixed cost through announced plant closures and targeted reductions in permanent positions in order to facilitate a leaner organization.

Results of Operations

Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009.

OVERALL RESULTS

	NN, Inc.			
(In Thousands of Dollars)	2010	2009	Change	
Net sales	$ 90,996	$ 66,110	$ 24,886	
Foreign exchange effects				(4,953)
Volume				26,679
Price				174
Mix				1,631
Material inflation pass-through				1,355
Cost of products sold (exclusive of depreciation and amortization shown separately below)	75,066	58,981	16,085	
Foreign exchange effects				(4,054)
Volume				17,685
Cost reduction				(548)
Mix				(159)
Inflation				1,502
New sales program start-up costs and plant closure related costs				1,659
Selling, general and administrative	7,316	6,465	851	
Foreign exchange effects				(277)
Increase in spending				1,128
Depreciation and amortization	4,189	5,255	(1,066)	
Foreign exchange effects				(215)
Elimination of depreciation expense on fully depreciated assets				(851)
Restructuring and impairment charges	823	4,070	(3,247)	
Interest expense	1,775	1,833	(58)	
(Gain)/loss on disposal of assets	676	(13)	689	
Other expense (income), net	1,407	(11)	1,418	
Income (loss) before provision (benefit) for income taxes	(256)	(10,470)	10,214	