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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended December 31, 2002
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 No.)
2000 Waters Edge Drive Johnson City, Tennessee	**37604**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (423) 743-9151

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01
(Title of class)

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No | |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes |X| No |_|

The number of shares of the registrant's common stock outstanding on March 28, 2003 was 15,372,841.

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 28, 2003, based on the closing price on the NASDAQ National Market System on that date was approximately $139,739,125.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement with respect to the 2003 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

PART I

Explanatory Statement

This Amendment on Form 10-K/A amends the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 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 or cash flows for the fiscal years ended December 31, 2002, 2001 or 2000.

We have revised the valuation of the original purchase price associated with the formation of Euroball in July 2000. This revision resulted in a reduction of goodwill of approximately 4.1 million Euro ($3.8 million). Further, we have increased stockholders' equity by approximately 10.0 million Euro ($9.3 million) to reflect the amount by which the Company's proportionate interest in Euroball exceeded the book value of the net assets exchanged by the Company. As a result of these two adjustments, minority interest in consolidated subsidiaries has been reduced by approximately $7.4 million, $12.6 million and $13.3 million, at December 31, 2002, 2001 and 2000, respectively, goodwill has been reduced $4.3 million, $3.7 million and $3.9 million, at December 31, 2002, 2001 and 2000, respectively, and paid in capital increased $9.3 million at December 31, 2002, 2001 and 2000 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 purchase price was recorded as a non-taxable gain in the amount of approximately $5.9 million. 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 $5.9 million as of

December 31, 2002 and reversal of the $5.9 million gain previously recorded 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 Consolidated Balance Sheets at December 31, 2002, 2001 and 2000.

Items amended include Item 1, Item 6, Item 7, Item 8 and Item 15. 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 in Item 15. Other than those described in Note 1 to the Consolidated Financial Statements, no other material changes have been made to this Annual Report on Form 10-K/A. This Form 10-K/A does not modify or update the disclosure contained in the Annual Report in any way other than as required to reflect the amendments discussed above.

Item 1. Business Overview

NN, Inc. manufactures and supplies high precision bearing components, consisting of balls, rollers, seals and retainers, for leading bearing manufacturers on a global basis. We are the leading independent manufacturer of precision steel bearing balls for the North American and European markets. In 1998, we began implementing a strategic plan designed to position us as a worldwide supplier of a broad line of bearing components and other precision plastic components. Through a series of acquisitions executed as part of that plan, we have built on our strong core ball business and greatly expanded our bearing component product offering. Today, we offer among the industry's most complete line of bearing components. We emphasize engineered products that take advantage of our competencies in product design and tight tolerance manufacturing processes. Our bearing customers use our components in fully assembled ball and roller bearings, which serve a wide variety of industrial applications in the transportation, electrical, agricultural, construction, machinery, mining and aerospace markets. As used in this Annual Report on Form 10-K/A, the terms "NN", "the Company", "we", "our", or "us" mean NN, Inc. and its subsidiaries.

For managerial and financial analysis purposes, management views the Company's operations in three segments: the domestic ball and roller operations of Erwin, Tennessee and Mountain City, Tennessee ("Domestic Ball and Roller Segment"), the Euroball facilities of Kilkenny, Ireland, Eltmann, Germany and Pinerolo, Italy ("Euroball Segment") and the operations of Industrial Molding Corporation ("IMC"), The Delta Rubber Company ("Delta") and NN Arte ("Plastics Segment"). Financial information about the Domestic Ball and Roller Segment, the Euroball Segment and the Plastics Segment are set forth in our Consolidated Financial Statements beginning on page 28.

Recent Developments

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. SKF has informed us that it intends to exercise its right and we expect to purchase its interest during the second quarter of 2003.

On December 9, 2002, we announced that we had signed a letter of intent to acquire certain component manufacturing operations of SKF in Veenendaal, The Netherlands. SKF, a Swedish corporation, is a global bearing manufacturer and one of our major customers. The transaction, which is expected to close in the second quarter of 2003, is subject to a number of conditions, including the execution of a definitive asset acquisition agreement, completion of due diligence, approval of NN's and SKF's boards of directors and any necessary approval of relevant government agencies.

On January 24, 2003, we exercised our call right to purchase the remaining 49 percent interest in NN Mexico, LLC. The transaction, which is expected to close in the second quarter of 2003, is subject to a number of conditions, including the approval of NN's board of directors. The transaction is not expected to materially impact our financial condition or results of operations. Based on the purchase price formula contained in the principal agreement between the parties, the purchase price for such interest is anticipated to be zero.

Corporate Information

NN, originally organized in October, 1980, is incorporated in Delaware, with our principal executive offices located at 2000 Water's Edge Drive, Johnson City, Tennessee 37604 and our telephone number is (423) 743-9151. Our web site address is www.nnbr.com. Information contained on our web site is not part of this Annual Report. Our annual report on Form 10-K/A, quarterly reports on Form 10-Q/A, current reports on Form 8-K and amendments thereto are available on our web site under "SEC Reports." Prior to February 5, 2003, these reports were available through a hyperlink to a third-party service which provided limited free access to such reports. We believed that such hyperlink provided unlimited free access to our filings with the Commission, however, this hyperlink did not provide unlimited free access to the reports. Therefore, the amendments to our Form 10-Q and Form 10-K filed on November 22, 2002 and our Forms 8-K filed December 9, 2002 and December 20, 2002 were not available free of charge to all viewers through our web site. After February 5, 2003, our hyperlink provides unlimited free access to our filings with the Commission on our web site under "SEC Reports".

Products

Precision Steel Balls. At our Erwin, Tennessee and Mountain City, Tennessee facilities and our Euroball facilities, we manufacture and sell high quality, precision steel balls in sizes ranging in diameter from 1/8 of an inch to 12 1/2 inches. We produce and sell balls in grades ranging from grade 3 to grade 1000, as established by the American Bearing Manufacturers Association. The grade number for a ball or a roller indicates the degree of spherical or cylindrical precision of the ball or roller; for example, grade 3 balls are manufactured to within three-millionths of an inch of roundness and grade 50 rollers are manufactured to within fifty-millionths of an inch of roundness. Our steel balls are used primarily by manufacturers of anti-friction bearings where precise spherical, tolerance and surface finish accuracies are required. At our Domestic Ball and Roller Segment, sales of steel balls accounted for approximately 88%, 89% and 92% of the segment's net sales in 2002, 2001 and 2000, respectively.

Steel Rollers. We manufacture cylindrical rollers at our Erwin, Tennessee facility. These cylindrical rollers are produced in a wide variety of sizes, ranging from grade 50 to grade 1000. Rollers are used in place of balls in anti-friction bearings that are subjected to heavy load conditions. Our roller products are used primarily for applications similar to those of our ball product lines, plus certain non-bearing applications such as hydraulic pumps and motors.

Bearing Seals and Retainers. We manufacture and sell a wide range of precision bearing seals produced through a variety of compression and injection molding processes and adhesion technologies to create rubber-to-metal bonded bearing seals. The seals are used in applications for automotive, industrial, agricultural, mining and aerospace markets. We also manufacture and sell high precision plastic retainers for ball and roller bearings used in a wide variety of industrial applications. Retainers are used to separate and space balls or rollers within a fully assembled bearing.

Precision Plastic Components. We also manufacture and sell a wide range of specialized plastic products including automotive under-the-hood components, electronic instrument cases and precision electronic connectors and lenses, as well as a variety of other specialized parts.

Research and Development. The amounts spent on research and development activities by us during each of the last three fiscal years are not material.

Customers

Our bearing component products are supplied primarily to bearing manufacturers for use in a broad range of industrial applications, including transportation, electrical, agricultural, construction, machinery, mining and aerospace. We supply over 500 customers; however, our top 10 customers account for approximately 73% of our revenue. These top 10 customers include SKF, INA/FAG, Timken, Torrington, GKN, SNR, Iljin, NTN,, Delphi, and NSK. In 2002, 44% of our products were sold to customers in North America, 47% to customers in Europe, and the remaining 9% to customers located throughout the rest of the world, primarily Asia. Sales to various U.S. and foreign divisions of SKF accounted for approximately 33% of net sales in 2002 and sales to INA/FAG accounted for approximately 19% of net sales in 2002, demonstrating our long-term, strategic relationships with these key customers. Historically, we have increased our supply to SKF and INA/FAG on an annual basis and we have almost tripled our sales to these two companies since 1999. These gains are directly attributed to the success of Euroball and our efforts to develop a closer partnering relationship with our global bearing customers. None of the Company's other customers accounted for more than 5% of its net sales in 2002.

Certain customers have contracted to purchase all or a majority of their bearing component requirements from us, although only a few are contractually obligated to purchase any specific amounts. While firm orders are generally received on a monthly basis, we are normally aware of future order levels well in advance of the placement of a firm order. For our domestic ball and roller operations, we maintain a computerized, bar coded inventory management system with most of our major customers that enables us to determine on a day-to-day basis the amount of these components remaining in a customer's inventory. When such inventories fall below certain levels, we automatically ship additional product.

Euroball has entered into six-year supply agreements with SKF and

INA/FAG providing for the purchase of Euroball products in amounts and at prices that are subject to adjustment on an annual basis. The agreements contain provisions obligating Euroball to maintain specified quality standards and comply with various ordering and delivery procedures, as well as other customary provisions. SKF may terminate its agreement if, among other things, Euroball

acquires or becomes acquired by a competitor of SKF. INA/FAG may terminate its agreement if, among other things, Euroball assigns its rights under the agreement, whether voluntarily or by operation of law. These agreements expire during 2006.

During 2002, the Domestic Ball and Roller Segment sold its products to more than 500 customers located in more than 25 different countries. Approximately 47% of ball and roller net sales in 2002 were to customers outside the United States. Sales to the Domestic Ball & Roller Segment's top ten customers accounted for approximately 73% of the segment's net sales in 2002. Sales to SKF and INA/FAG accounted for approximately 32% and 14% of the segment's net sales in 2002, respectively.

During 2002, the Euroball Segment sold its products to more than 30 customers located in more than 25 different countries. Approximately 92% of its net sales in 2002 were to customers within Europe. Sales to the segment's top ten customers accounted for approximately 95% of the segment's net sales in 2002. Sales to SKF and INA/FAG accounted for approximately 51% and 25% of the segment's net sales in 2002, respectively. Sales to SKF and INA/FAG are made pursuant to the terms of supply agreements which expire in 2006.

During 2002, the Plastics Segment sold its products to more than 100 customers located in more than 16 different countries. Approximately 18% of the Plastics Segment's net sales were to customers outside the United States. Sales to the segment's top ten customers accounted for approximately 62% of the Plastics Segment's net sales in 2002.

See Note 12 of the Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations" for additional segment financial information. In both the foreign and domestic markets, the Company principally sells its products directly to manufacturers and not to distributors.

We ordinarily ship our products directly to customers within 60 days, and in some cases, during the same calendar month, of the date on which a sales order is placed. Accordingly, we generally have an insignificant amount of open (backlog) orders from customers at month end. Certain of our customers have entered into contracts with us pursuant to which they have agreed to purchase all of their requirements of specified balls and rollers and plastic molded products from us, although only a few are contractually obligated to purchase any specific amounts. While firm orders generally are received only monthly, we are normally aware of reasonably anticipated future orders well in advance of the placement of a firm order. Certain agreements are in effect with some of our largest customers, which provide for targeted, annual price adjustments that may be offset by material cost fluctuations.

The following table presents a breakdown of our net sales for fiscal years 2000 through 2002:

(In Thousands)

	2002	2001	2000
Domestic Ball and Roller Segment	$ 52,634	$ 52,692	$67,637
	27.3%	29.3%	51.2%
Euroball Segment	90,653	86,719	33,988
	47.0%	48.1%	25.7%
Plastics Segment	49,568	40,740	30,504
	25.7%	22.6%	23.1%
Total	$ 192,856	$ 180,151	$ 132,129
	100%	100%	100%

Sales and Marketing

A primary emphasis of our marketing strategy is to expand key customer relationships by offering them the value of a single supply chain partner for a wide variety of components. As a result, we have progressed toward integrating our sales organization on a global basis across all of our product lines. Our sales organization includes seven direct sales and 12

customer service representatives. Due to the technical nature of many of our products, our engineers and manufacturing management personnel also provide technical sales support functions, while internal sales employees handle customer orders and other general sales support activities.

Our bearing component marketing strategy focuses on increasing our outsourcing relationships with global bearing manufacturers that maintain captive bearing component manufacturing operations. Our marketing strategy for our other precision plastic products is to offer custom manufactured, high quality, precision parts to niche markets with high value-added characteristics at competitive price levels. This strategy focuses on relationships with key customers that require the production of technically difficult parts, enabling us to take advantage of our strengths in custom product development, tool design, and precision molding processes.

As shown in the chart below, the addition of the retainer and seal product lines have further enhanced many of our key customer relationships, making us a more complete and integrated supplier of bearing component parts.

			Products	
Name	**Country**	**Description**	**Balls & Rollers**	**Seals**
SKF	Sweden	Global bearing manufacturer	X	X
INA/FAG	Germany	Global bearing manufacturer	X	X
Torrington	USA	Global bearing manufacturer	X	X
NTN	Japan	Global bearing manufacturer	X	X
SNR	France	Global bearing manufacturer	X	
Timken	USA	Global bearing manufacturer		X
Delphi	USA	Automotive component supplier	X	X
Iljin	Korea	Global bearing manufacturer	X	

NSK	Japan	Global bearing manufacturer	X	
Koyo	Japan	Global bearing manufacturer	X	X

Our arrangements with our domestic customers typically provide that payments are due within 30 days following the date of shipment of goods. With respect to foreign customers, payments generally are due within 90 to 120 days following the date of shipment in order to allow for additional freight time and customs clearance. For customers that participate in our Domestic Ball and Roller Segments inventory management program, sales are recorded when the customer uses the product. See "Business -- Customers" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Manufacturing Process

We have become a leading independent bearing component manufacturer through exceptional service and high quality manufacturing processes and are recognized throughout the industry as a low-cost producer. Because our ball and roller manufacturing processes incorporate the use of standardized tooling, load sizes, and process technology, we are able to produce large volumes of products while maintaining high quality standards.

The key to our low-cost, high quality production of seals and retainers is the incorporation of customized engineering into our manufacturing processes, metal to rubber bonding competency and experience with a broad range of engineered resins. We employ 20 skilled engineers who design and customize the tooling necessary to meet the needs of each customer's product. This design process includes the testing and quality assessment of each product.

Employees

As of December 31, 2002, we employed a total of 1,350 full-time employees. Our Domestic Ball and Roller Segment employed 226 workers, the Euroball Segment employed 654 workers, our Plastics Segment employed 465 workers, and there were five employees at the Company's corporate headquarters. Of our total employment, 19% are management/staff employees and 81% are production employees. We believe we are able to attract and retain high quality employees because of our quality reputation, technical expertise, history of financial and operating stability, attractive employee benefit programs, and our progressive, employee-friendly working environment. Only the employees in the Eltmann, Germany and Pinerolo, Italy plants are unionized and we have never experienced any involuntary work stoppages. We consider our relations with our employees to be excellent.

Competition

The precision ball and roller industry is intensely competitive, and many of our competitors have greater financial resources than we do. Our primary domestic competitor is Hoover Precision Products, Inc., a division of Tsubakimoto Precision Products Co. Ltd. Our primary foreign competitors are Amatsuji Steel Ball Manufacturing Company, Ltd. and Tsubakimoto Precision Products Co. Ltd.

We believe that competition within the precision ball and roller market is based principally on quality, price and the ability to consistently meet customer delivery requirements. Management believes that our competitive strengths are our precision manufacturing capabilities, our reputation for consistent quality and reliability, and the productivity of our workforce.

The markets for the Plastic Segment's products are also intensely competitive. Since the plastic injection molding industry is currently very fragmented, IMC and NN Arte must compete with numerous companies in each of their marketing segments. Many of these companies have substantially greater financial resources than we do and many currently offer competing products nationally and internationally. IMC's primary competitor in the bearing retainer segment is Nakanishi Manufacturing Corporation. Domestically, Nypro, Inc. and Key Plastics are the main competitors in the automotive segment. NN Arte primarily competes with various plastic injection molders in Mexico.

We believe that competition within the plastic injection molding industry is based principally on quality, price, design capabilities and speed of responsiveness and delivery. Management believes that IMC's competitive strengths are product development, tool design, fabrication, and tight tolerance molding processes. With these strengths, IMC has built its reputation in the marketplace as a quality producer of technically difficult products.

While intensely competitive, the markets for Delta's products are less fragmented than IMC and NN Arte's. The bearing seal market is comprised of approximately six major competitors that range from small privately held companies to Fortune 500 global enterprises. Bearing seal manufacturers compete on the design, service, quality and price. Delta's primary competitors in the United States bearing seal market are Freudenburg-NOK, Chicago Rawhide Industries, Trostel, LTD, and Uchiyama.

Raw Materials

The primary raw material used in our Domestic Ball and Roller Segment and Euroball Segment is 52100 Steel. During 2002, approximately 98% and 99% of the steel used by these two segments, respectively, was 52100 Steel in rod and wire form. Our other steel requirements include type 440C stainless steel and type S2 rock bit steel.

The Domestic Ball and Roller Segment purchases substantially all of its 52100 Steel requirements from foreign mills in Europe and Japan because of the lack of domestic producers of such steel in the form we require. The principal suppliers of 52100 Steel to the Domestic Ball and Roller Segment are Daido Steel (America) Inc., Lucchini USA Inc. (affiliate of Ascometal France) and Ohio Star Forge Co. The Euroball Segment purchases all of its 52100 Steel requirements from European mills. The principal supplier of 52100 Steel to the Euroball Segment is Ascometal France. (See Note 15 of the Notes to Consolidated Financial Statements) Our other steel requirements are purchased principally from foreign steel manufacturers. There are a limited number of suppliers of the 52100 Steel that we use in our Domestic Ball and Roller and Euroball Segments. We believe that if any of our current suppliers were unable to supply 52100 Steel to us, we would be able to obtain our 52100 Steel requirements from alternate sources. We cannot provide assurances that we would not face higher costs or production interruptions as a result of obtaining 52100 Steel from alternate sources.

We allocate steel purchases among suppliers on the basis of price and, more significantly, composition and quality. The pricing arrangements with our suppliers are typically subject to adjustment once every six months for the Domestic Ball and Roller Segment. In general, we do not enter into written supply agreements with suppliers or commit to maintain minimum monthly purchases of steel except for the supply arrangements between Ascometal and Euroball (see Note 15 of the Notes to Consolidated Financial Statements). For the Domestic Ball and Roller and Euroball Segments, the average price of 52100 Steel decreased approximately 2.5% in 2002, increased approximately 1.9% in 2001, and decreased approximately 1% in 2000.

Because 52100 Steel is principally produced by foreign manufacturers, the Company's operating results would be negatively affected in the event that the U.S. or European governments imposes any significant quotas, tariffs or other duties

or restrictions on the import of such steel or if the U.S. dollar decreases in value relative to foreign currencies. On March 6, 2002, the U.S. government adopted legislation that imposed certain tariffs on the import of certain foreign produced steel into the United States. Because the vast majority of the 52100 Steel we use has been exempted from recent U.S. tariffs on imported steel, we have not been materially affected by import regulations.

In 2001, we established a supply alliance with The Torrington Company, which was acquired by the Timken Company in February 2003, to leverage our combined supply requirements. The purchasing entity is empowered to negotiate and execute supply agreements for both companies. Because we both use similar raw materials from many common sources, we believe the potential synergies in raw material procurement will be of significant value.

The primary raw materials used by IMC and NN Arte are engineered resins. Injection grade nylon is utilized in bearing retainers, gears, automotive and other industrial products. We purchase substantially all of our resin requirements from domestic manufacturers and suppliers. The majority of these suppliers are international companies with resin manufacturing facilities located throughout the world. We experienced price decreases for engineered resins of approximately 2.5% in 2002, price increases of approximately 4.3% in 2001, and price increases of approximately 3.0% in 2000.

Delta uses certified vendors to provide a customer mix of proprietary rubber compounds. Delta also procures metal stampings from several domestic suppliers. We experienced price increases for Delta's raw materials of approximately 2.5% in 2002 and 2.5% in 2001.

We base purchase decisions on price, quality and service. Generally, we do not enter into written supply contracts with our suppliers or commit to maintain minimum monthly purchases of resins. The pricing arrangements with our suppliers typically can be adjusted at anytime.

Patents, Trademarks and Licenses

We do not own any U.S. or foreign patents, trademarks or licenses that are material to our business. We do rely on certain data and processes, including trade secrets and know-how, and the success of our business depends, to some extent, on such information remaining confidential. Each executive officer is subject to a non-competition and confidentiality agreement that seeks to protect this information.

Seasonal Nature of Business

Historically, due to a substantial portion of sales to European customers, seasonality has been a factor for our business in that some European customers typically cease their production activities during the month of August.

Environmental Compliance

Our operations and products are subject to extensive federal, state and local regulatory requirements both domestically and abroad relating to pollution control and protection of the environment. We maintain a compliance program to assist in preventing and, if necessary, correcting environmental problems. Based on information compiled to date, management believes that our current operations are in substantial compliance with applicable environmental laws and regulations, the violation of which would have a material adverse effect on our business and financial condition. There can be no assurance, however, that currently unknown matters, new laws and regulations, or stricter interpretations of existing laws and regulations will not materially affect our business or operations in the future. More specifically, although we believe that we dispose of wastes in material compliance with applicable environmental laws and regulations, there can be no assurance that we will not incur significant liabilities in the future in connection with the clean-up of waste disposal sites.

In the past, we have incurred certain expenses in complying with applicable environmental laws associated with the removal of four underground storage tanks containing kerosene and waste oil, the remediation of soil and groundwater contamination resulting from a leak in one of the tanks, and the closing of a sludge disposal area at one of our ball and roller facilities. The remediation project is now complete, but we have certain ongoing monitoring responsibilities. The amounts we have expended in connection with this remediation project have not been material, and based upon information currently available to us, we do not believe that the future costs associated with the project will have a material adverse effect on our results of operations or financial condition.

Executive Officers of the Registrant

Our executive officers are:

Name	**Age**	**Position**
Roderick R. Baty	49	Chairman of the Board, Chief Executive Officer, Presi Director
Frank T. Gentry, III	47	Vice President - Manufacturing
Robert R. Sams	45	Vice President - Market Services
David L. Dyckman	38	Vice President - Corporate Development and Chief Fina
William C. Kelly, Jr.	44	Treasurer, Secretary and Chief Administrative Officer

Set forth below is certain additional information with respect to each of our executive officers.

Roderick R. Baty was elected Chairman of the Board in September 2001 and continues to serve as Chief Executive Officer and President. He has served as President and Chief Executive Officer since July 1997. He joined NN in July 1995 as Vice President and Chief Financial Officer and was elected to the Board of Directors in 1995. Prior to joining NN, Mr. Baty served as President and Chief Operating Officer of Hoover Precision Products from 1990 until January 1995, and as Vice President and General Manager of Hoover Group from 1985 to 1990.

Frank T. Gentry, III, was originally appointed Vice President - Manufacturing in August 1995. Mr. Gentry is responsible for the global operations of the Ball and Roller and Euroball Segments. Mr. Gentry's responsibilities include purchasing, inventory control and transportation. Mr. Gentry joined NN in 1981 and held various production control positions within NN from 1981 to August 1995.

Robert R. Sams joined NN in 1996 as Plant Manager of the Mountain City, Tennessee facility. In 1997, Mr. Sams served as Managing Director of the Kilkenny facility and in 1999 was elected to the position of Vice President - Market Services. Prior to joining NN, Mr. Sams held various positions with Hoover Precision Products from 1980 to 1994 and most recently as Vice President of Production for Blum, Inc. from 1994 to 1996.

David L. Dyckman was appointed Vice President of Corporate Development and Chief Financial Officer in April 1998. Prior to joining NN, Mr. Dyckman served from January 1997 until April 1998 as Vice President--Marketing and International Sales for the Veeder-Root Division of the Danaher Corporation. From 1987 until 1997, Mr. Dyckman held various positions with Emerson Electric Company including General Manager and Vice President of the Gearing Division of Emerson's Power Transmission subsidiary.

William C. Kelly, Jr. joined NN in 1993 as Assistant Treasurer and Manager of Investor Relations. In March, 2003, Mr. Kelly was elected to serve as NN's Chief Administrative Officer. In July 1994, Mr. Kelly was elected to serve as NN's Chief Accounting Officer, and served in that capacity through March 2003. In February 1995, was elected Treasurer and Assistant Secretary. In March 1999 he was elected Secretary of NN and still serves in that capacity as well as that of Treasurer. Prior to joining NN, Mr. Kelly served from 1988 to 1993 as a Staff Accountant and as a Senior Auditor with the accounting firm of PricewaterhouseCoopers LLP.

Item 2. Properties

The Company has two operating domestic ball manufacturing facilities located in Erwin, Tennessee and Mountain City, Tennessee. Rollers are produced only at the Erwin, Tennessee facility. Production began in early 1996 at the Mountain City facility. During December 2001, we ceased production and closed our facility in Walterboro, South Carolina. The Walterboro, South Carolina facility is classified as held for sale at December 31, 2002 and 2001.

The Erwin and Mountain City plants currently have approximately 125,000 and 86,400 square feet of manufacturing space, respectively. The Erwin plant is located on a 12 acre tract of land owned by the Company and the Mountain City plant is located on an eight acre tract of land owned by the Company.

Through Euroball we manufacture high precision steel balls in three manufacturing facilities located in Kilkenny, Ireland, Eltmann, Germany and Pinerolo, Italy. The facilities currently have approximately 125,000, 175,000 and 330,000 square feet of manufacturing space, respectively. The Kilkenny facility is located on a two acre tract owned by Euroball, the Eltmann facility is leased from FAG and the Pinerolo facility is located on a nine acre tract owned by Euroball.

IMC manufactures a wide range of plastic molded products through two facilities located in Lubbock, Texas. The Slaton facility, located on a six and one half acre tract of land owned by the Company, contains approximately 193,000 square feet of manufacturing, warehouse and office space. The Cedar facility is situated on a two and one half acre tract of land which is also owned by the Company and contains approximately 35,000 square feet of manufacturing and warehouse space.

NN Arté leases a single 18,000 square foot facility in Guadalajara, Mexico.

Delta's operations are located in two facilities on a 12-acre site in Danielson, Connecticut, owned by the Company. The two facilities encompass over 50,000 square feet of rubber seal manufacturing and administrative functions.

During 2002, the Company added new machinery and equipment at all of its facilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Item 3. Legal Proceedings

From time to time the Company is subject to legal actions related to its operations, most of which are of an ordinary and routine nature and are incidental to the operations of the Company. Management believes that such proceedings should not, individually or in the aggregate, have a material adverse effect on the Company's business or financial condition or on the results of operations.

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

No matters were submitted for a vote of stockholders during the fourth quarter of 2002.

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Part II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Since the Company's initial public offering in 1994, the Common Stock has been traded on the Nasdaq National Market under the trading symbol "NNBR." Prior to such time there was no established market for the Common Stock. As of March 28, 2003, there were approximately 1,800 holders of the Common Stock.

The following table sets forth the high and low sales prices of the Common Stock, as reported by Nasdaq, and the dividends paid per share on the Common Stock during each calendar quarter of 2002, 2001 and 2000.

	Price		
	High	**Low**	**Dividend**
2002			
First Quarter	$11.00	$9.15	$0.08
Second Quarter	12.80	9.68	0.08
Third Quarter	12.45	8.08	0.08
Fourth Quarter	10.10	6.98	0.08
2001			
First Quarter	$ 9.17	$6.53	$0.08
Second Quarter	10.81	6.50	0.08
Third Quarter	10.84	7.25	0.08
Fourth Quarter	11.30	7.75	0.08

2000			
First Quarter	$10.88	$6.75	$0.08
Second Quarter	11.38	8.03	0.08
Third Quarter	10.50	7.50	0.08
Fourth Quarter	9.50	7.13	0.08

The declaration and payment of dividends are subject to the sole discretion of the Board of Directors of the Company and depend upon the Company's profitability, financial condition, capital needs, future prospects and other factors deemed relevant by the Board of Directors. The terms of the Company's revolving credit facility restrict the payment of dividends by prohibiting the Company from declaring or paying any dividend if an event of default exists at the time of, or would occur as a result of, such declaration or payment. Additionally, the terms of the Company's revolving credit facility restrict the declaration and payment of dividends in excess of $5.5 million in any fiscal year. The amount of consolidated retained earnings which represents undistributed earnings of 50 percent or less owned persons accounted for by the equity method is zero at December 31, 2002, 2001 and 2000. For further description of the Company's revolving credit facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" herein.

Item 6. Selected Financial Data

The following selected financial data of the Company are qualified by reference to and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included as Item 8. The data set forth below as of December 31, 2002, 2001 and 2000 and for the periods then ended have been derived from the Consolidated Financial Statements of the Company, revised to reflect the restatement thereof as more fully discussed in Note 1 to the Consolidated Financial Statements, which have been audited by KPMG LLP, independent accountants, whose report thereon is included as part of Item 8. The data below as of December 31, 1999 and 1998 and for the periods then ended have been derived from the Consolidated Financial Statements of the Company, which have been audited by PricewaterhouseCoopers LLP, independent accountants. These historical results are not necessarily indicative of the results to be expected in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(In Thousands, Except Per Share Data)			**Year Ended Decem**
	Restated		
	2002	**2001**	**2000**
Statement of Income Data:			
Net sales	$192,856	$180,151	$132,
Cost of products sold	144,274	137,221	93,
Gross profit	48,582	42,930	38,
Selling, general and administrative expenses	17,134	16,752	11,
Depreciation and amortization	11,212	13,150	9,
Restructuring and impairment costs	1,277	2,312	

Income from operations	18,959	10,716	17,
Interest expense	2,451	4,196	1,
Equity in earnings of unconsolidated affiliate	--	--	(
Net gain on involuntary conversion	--	(3,901)	(7
Other income	(487)	(186)	(1
Income before provision for income taxes	16,995	10,607	16,
Provision for income taxes	6,457	4,094	5,
Minority interest in income of consolidated subsidiary	2,778	1,753	
Income before cumulative effect of change in accounting principle	7,760	4,760	9,
Cumulative effect of change in accounting principle, net of income tax benefit of $112 and related minority interest impact of $84	--	98	
Net income	$ 7,760	$ 4,662	$ 9,
Basic income per share:			
Income before cumulative effect of change in accounting principle	$ 0. 51	$ 0.31	$ 0
Cumulative effect of change in accounting principle	--	(0.01)	
Net income	$ 0. 51	$ 0.31	$ 0
Diluted income per share:			
Income before cumulative effect of change in accounting principle	$ 0.49	$ 0.31	$ 0
Cumulative effect of change in accounting principle	--	(0.01)	
Net income	$ 0.49	$ 0.30	$ 0
Dividends declared	$ 0.32	$ 0.32	$ 0
Weighted average number of shares outstanding - Basic	15,343	15,259	15,
Weighted average number of shares outstanding - Diluted	15,714	15,540	15,

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(In Thousands, Except Per Share Data)

			Year Ended December 31,	
	Restated	**Restated**	**Restated**	
	2002	**2001**	**2000**	**199**
Balance Sheet Data:				

Current assets	$ 61,412	$ 55,617	$ 63,866	$ 34,3
Current liabilities	40,234	32,534	33,840	10,4
Total assets	195,215	184,477	183,951	91,3
Long-term debt	46,135	47,661	50,515	17,1
Stockholders' equity	77,908	70,982	74,675	60,1

On December 20, 2002 we completed the purchase of the 23% interest in Euroball held by INA/FAG. As a result of this transaction, we own 77% of the shares of NN Euroball, ApS.

Effective January 1, 2002 we adopted the provision of Statement of Financial Accounting Standards (SFAS) No. 142. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized.

On February 16, 2001 we completed the acquisition of all of the outstanding stock of The Delta Rubber Company.

On July 31, 2000 we completed the formation of Euroball. As a result of this transaction, we owned 54% of the shares of NN Euroball ApS.

On July 4, 1999 we acquired all of the assets and assumed certain liabilities of Earsley Capital Corporation, formerly known as Industrial Molding Corporation.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements and the Notes thereto and Selected Financial Data included elsewhere in this Form 10-K/A. Historical operating results and percentage relationships among any amounts included in the Consolidated Financial Statements are not necessarily indicative of trends in operating results for any future period.

Restatement

This Amendment on Form 10-K/A amends the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 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 or cash flows for the fiscal years ended December 31, 2002, 2001 or 2000.

We have revised the valuation of the original purchase price associated with the formation of Euroball in July 2000. This revision resulted in a reduction of goodwill of approximately 4.1 million Euro ($3.8 million). Further, we have increased stockholders' equity by approximately 10.0 million Euro ($9.3 million) to reflect the amount by which the Company's proportionate interest in Euroball exceeded the book value of the net assets exchanged by the Company. As a result of these two adjustments, minority interest in consolidated subsidiaries has been reduced by approximately $7.4 million, $12.6 million and $13.3 million, at December 31, 2002, 2001 and 2000, respectively, goodwill has been reduced $4.3 million, $3.7 million and $3.9 million, at December 31, 2002, 2001 and 2000, respectively, and paid in capital increased $9.3 million at December 31, 2002, 2001 and 2000 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. 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 as of December 31, 2002 and reversal of the $5.9 million gain previously recorded 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 Consolidated Balance Sheets at December 31, 2002, 2001 and 2000.

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

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

You should carefully consider the following risks and uncertainties, and all other information contained in or incorporated by reference in this annual report on Form 10-K/A, 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:

- adverse foreign currency fluctuations;
- changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies and similar organizations;
- the imposition of trade restrictions or prohibitions;
- high tax rates that discourage the repatriation of funds to the U.S.;
- the imposition of import or other duties or taxes; and
- 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. 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. 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. 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 2001. During 2002, we purchased INA/FAG's minority interest in Euroball. See Note 3 of the Notes to Consolidated Financial Statements. 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.

Additionally, SKF, the minority shareholder in Euroball, has the right to require us to purchase its interest beginning in January 2003. SKF has informed us that it intends to exercise its right and we expect to purchase its interest in

the second quarter of 2003. The Company may need to borrow funds to pay for all or a portion of the purchase of SKF's interest or may be required to make a purchase at a time that is less favorable to the Company.

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

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

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

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

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

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

The price of our common stock may be volatile.

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

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

Overview

The Company's core business is the manufacture and sale of high quality, precision steel balls and rollers. In 2002, sales of balls and rollers accounted for approximately 74% of the Company's total net sales with 71% and 3% of sales from balls and rollers, respectively. Sales of precision molded plastic and rubber parts accounted for the remaining 26%. See Note 12 of the Notes to Consolidated Financial Statements.

Since the Company was formed in 1980 it has grown primarily through the displacement of captive ball manufacturing operations of domestic and international bearing manufacturers resulting in increased sales of high precision balls for quiet bearing applications. Management believes that the Company's core business sales growth since its formation has been due to its ability to capitalize on opportunities in global markets and provide precision products at competitive prices, as well as its emphasis on product quality and customer service.

In 1997, the Company recognized changing dynamics in the marketplace, and as a result, developed and began implementing an extensive long-term growth strategy building upon its core business and leveraging its inherent strengths to better serve its global customer base. As part of this strategy, the Company sought to augment its intrinsic growth with complementary acquisitions that fit specific criteria.

On July 4, 1999, the Company acquired substantially all of the assets of Earsley Capital Corporation, formerly known as Industrial Molding Corporation ("IMC"). Formed in 1947, IMC provides full-service design and manufacture of plastic injection molded components to the bearing, automotive, electronic, leisure and consumer markets with an emphasis on value-added products that take advantage of its capabilities in product development, tool design and tight tolerance molding processes. IMC operates two manufacturing facilities in Lubbock, Texas. During 2002, IMC sold its products to more than 60 customers in 12 different countries.

On July 31, 2000, the Company formed a majority owned stand-alone company in Europe, NN Euroball ApS ("Euroball"), for the manufacture and sale of chrome steel balls used for ball bearings and other products. As a result of this transaction, the Company owned 54% of Euroball. AB SKF and FAG Kugelfisher Georg Shafer AG, the parent companies of SKF and FAG respectively each owned 23% of Euroball. As part of the transaction, Euroball acquired the ball factories located in Pinerolo, Italy (previously owned by SKF), Eltmann, Germany (previously owned by FAG), and Kilkenny, Ireland (previously owned by the Company). Acquisition financing of approximately 31.5 million euro (approximately $29.7 million) was drawn at closing, and the credit facility provides for additional working capital expenditure financing. In connection with this transaction, total equity, specifically additional paid in capital, increased by 10.0 million Euros ($9.3

million) to reflect the increase in the Company's proportionate interest in Euroball as related to its 54% ownership as more fully detailed in Note 3 to the Consolidated Financial Statements. The Company is required to consolidate Euroball due to its majority ownership and has accounted for the acquisitions of the Pinerolo, Italy and Eltmann, Germany ball factories using the purchase method of accounting. On December 20, 2002 the Company completed the purchase of the 23% interest held by INA/FAG. The Company paid approximately 13.4 million Euros ($13.8 million) for INA/FAG's interest in Euroball. The excess of the purchase price paid to INA/FAG for its 23% interest over the minority interest in consolidated subsidiaries related to INA/FAG's 23% interest of approximately $1.5 million has been recorded as goodwill (see Notes 1 and 3 of the Notes to Consolidated Financial Statements). Following the closing of the transaction, the Company owns 77% of the outstanding shares of Euroball and SKF owns the remaining 23%. SKF consented to our purchase of INA/FAG's interest pursuant to the terms of the Euroball Shareholder Agreement. Under the terms of the Shareholder Agreement with SKF, SKF has the right, beginning January 2003, to exercise its put option regarding its interest in Euroball to the Company on a formula buy-out. SKF has informed us that it intends to exercise its right and we expect to purchase its interest during the second quarter of 2003. However, if exercised at December 31, 2002, the purchase price would have been approximately $14.0 million versus minority interest in consolidated subsidiaries of $12.3 million.

On August 31, 2000, the Company acquired a 51% ownership interest in NN Mexico, LLC ("NN Mexico"), a Delaware limited liability company. NN Mexico holds as its sole investment a 100% ownership interest in NN Arté, a manufacturer of plastic components located in Guadalajara, Mexico. The Company is required to consolidate NN Mexico due to its majority ownership and has accounted for this acquisition using the purchase method of accounting. On January 24, 2003, we exercised our Call Right to purchase the remaining 49% interest in NN Mexico, LLC. The transaction, which is expected to close in the second quarter of 2003, is subject to a number of conditions, including the approval of NN's board of directors. The transaction is not expected to materially impact our financial condition or results of operations. Based on the purchase price formula contained in the principal agreement between the parties the purchase price for such interest is anticipated to be zero.

On February 16, 2001, the Company completed the acquisition of all of the outstanding stock of The Delta Rubber Company, a Connecticut corporation ("Delta") for $22.5 million in cash. Delta provides high quality engineered bearing seals and other precision-molded rubber products to original equipment manufacturers. Delta operates two manufacturing facilities in Danielson, Connecticut. The Company's credit facility with AmSouth Bank was renegotiated to provide financing for the transaction. The Company has accounted for this acquisition using the purchase method of accounting.

On September 11, 2001, the Company announced the closing of its Walterboro, South Carolina ball manufacturing facility effective December 2001. The closing was made as part of the Company's strategy to redistribute its global production in order to better utilize capacity and serve the needs of its worldwide customers. The precision ball production of the Walterboro facility has been fully absorbed by the Company's remaining U.S. ball & roller manufacturing facilities located in Erwin and Mountain City, Tennessee. In 2002 and 2001 the Company recorded before tax charges associated with the closing of $1.3 million and $1.9 million, respectively. In 2001, this amount includes a $1.1 million before-tax charge for the recording of impairment on the Company's manufacturing facility located in Walterboro, South Carolina and $0.8 million related to employee severance costs. In 2002, this amount includes a $0.6 million before-tax charge for the recording of an additional impairment on the facility, a $0.6 million before-tax charge for the recording of impairment on the machinery and equipment and a $0.1 million charge related to employee severance costs. These amounts are reflected as restructuring and impairment costs in the accompanying Consolidated Statements of Income. The building along with certain machinery and equipment are held for sale as of December 31, 2002. These assets have an aggregate carrying value of $2.2 million. The financial results of this operation have been reflected in the Domestic Ball and Roller Segment. See Note 11 of the Notes to Consolidated Financial Statements.

Effective December 21, 2001, the Company sold its minority interest in Jiangsu General Ball & Roller Company, LTD, a Chinese ball and roller manufacturer located in Rugao City, Jiangsu Province, China. To effect the transaction, the Company sold its 50% ownership in NN General, LLC, which owns a 60% interest in the Jiangsu joint venture to its partner, General Bearing Corporation for cash of $0.6 million and notes of $3.3 million. In 2001, the Company recorded a non-cash after-tax loss on sale of the investments in this joint venture of $0.2 million.

The implementation and successful execution of this acquisition strategy to date has allowed the Company to expand its global presence and positions the Company for continued global growth and expansion into core served markets.

Critical Accounting Policies

Our significant accounting policies, including the assumptions and judgment underlying them, are disclosed in Note (2) to the Consolidated Financial Statements. 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 core served markets: bearing manufacturers, automotive industry, electronics, industrial, agricultural and aerospace. Due to the Chapter 7 voluntary bankruptcy of one IMC customer and other write-offs, the Company experienced $1.7 million of bad debt expense during 2001 versus $0.1 million during 2002. 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.

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.

Results of Operations

The following table sets forth for the periods indicated selected financial data and the percentage of the Company's net sales represented by each income statement line item presented.

	As a percentage of Net Sales Year Ended December 31,		
	Restated 2002	2001	2000
Net sales	100.0%	100.0%	100
Cost of product sold	74.8	76.2	7
Gross profit	25.2	23.8	2
Selling, general and administrative expenses	8.9	9.3	
Depreciation and amortization	5.8	7.3	
Restructuring and impairment costs	0.7	1.3	
Income from operations	9.8	5.9	1
Interest expense	1.3	2.3	
Equity in earnings of unconsolidated affiliates	--	--	
Net gain on involuntary conversion	--	(2.2)	(0
Other income	(0.2)	(0.1)	(0
Income before provision for income taxes	8.8	5.9	1
Provision for income taxes	3.4	2.3	
Minority interest in income of consolidated subsidiary	1.4	1.0	
Income before cumulative effect of change in accounting principle	4.0	2.6	
Cumulative effect of change in accounting principle, net of income tax benefit of $112 and related minority interest impact of $84			
Net income	4.0%	2.6%	7

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

Net Sales. The Company's net sales increased $12.7 million or 7.1% from $180.2 million in 2001 to $192.9 million in 2002. The inclusion of a full year of Delta contributed $2.5 million of the increase. Increased demand and new programs within the Plastics Segment contributed $6.3 million of the increase. Additionally, currency impacts within the Euroball Segment contributed $4.5 million of the increase. Offsetting these increases were contractual price decreases and modest volume improvements in the Euroball Segment resulting in a net decrease of $0.6 million.

Gross Profit. Gross profit increased by $5.7 million or 13.2% from $42.9 million in 2001 to $48.6 million in 2002. The inclusion of a full year of

Delta contributed $0.7 million of the increase. Cost reductions in the Domestic Ball and Roller Segment principally related to the closing of the Company's Walterboro, South Carolina ball production facility contributed $0.6 million of the increase. Increased product demand, new sales programs and cost reductions in the Plastics Segment contributed $1.8 million of the increase. Additionally, cost reduction programs and currency impacts contributed $1.5 million and $1.0 million, respectively, in the Euroball Segment. As a percentage of net sales, gross profit increased from 23.8% in 2001 to 25.2% in 2002.

Restructuring and Impairment Costs. Restructuring and impairment costs decreased by $1.0 million from $2.3 million in 2001 to $1.3 million in 2002. The Company incurred a charge for the recording of impairment on the Company's

manufacturing facility and equipment in Walterboro, South Carolina of $1.2 million and $1.1 million in 2002 and 2001, respectively. A charge of $0.1 million and $0.8 million was recorded in 2002 and 2001, respectively, associated with employee severance costs related to the closing of the Walterboro, South Carolina facility. Additionally, charges related to Euroball of $0 million and $0.4 million were recorded in 2002 and 2001, respectively. Restructuring and impairment charges were 0.7% of sales in 2002 and 1.3% of sales in 2001.

Selling, General and Administrative Expenses. Selling, general and administrative costs increased by $0.4 million, or 2.3%, from $16.8 million in 2001 to $17.1 million in 2002. The inclusion of a full year of Delta contributed $0.1 million of the increase. Advisory services principally associated with the previously announced desire of certain original founders of the Company to liquidate their holdings in the Company's stock contributed $0.3 million of the increase. Other increases totaling $0.5 million are primarily attributable to incentive based compensation throughout the Company and strategic planning technology initiatives at Euroball. Offsetting these increases were decreased spending of approximately $0.8 million related to bad debt expense primarily related to the bankruptcy filing of a major Plastics Segment customer in 2001. As a percentage of net sales, selling, general and administrative expenses decreased from 9.3% in 2001 to 8.9% in 2002.

Depreciation and Amortization. Depreciation and amortization expenses decreased by $2.0 million from $13.2 million in 2001 to $11.2 million in 2002. The adoption of FASB Statement No. 142 eliminated the amortization of goodwill and contributed $1.8 million of the decrease. The assets held for sale as a result of the closing of the Walterboro, South Carolina ball production facility, which are no longer depreciated, contributed $0.9 million of the decrease. Offsetting these decreases, were a full year of depreciation of Delta assets contributing $0.3 million and currency impacts at Euroball contributing $0.3 million. As a percentage of sales, depreciation and amortization decreased from 7.3% in 2001 to 5.8% in 2002.

Interest Expense. Interest expense decreased by $1.7 million from $4.2 million in 2001 to $2.5 million in 2002. The decrease is principally attributed to the decrease in interest rates and decreased average debt levels in 2002. As a percentage of net sales, interest expense decreased from 2.3% in 2001 to 1.3% in 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

Net Gain on Involuntary Conversion. The Company had a gain on involuntary conversion of $0.0 million and $3.9 million in 2002 and 2001, respectively, related to insurance proceeds as a result of the March 12, 2000 fire at the Erwin production facility.

Minority Interest in Consolidated Subsidiary. Minority interest of consolidated subsidiary increased $1.0 million from $1.8 million in 2001 to $2.8 million in 2002. This increase is due entirely to the Euroball joint venture which has been consolidated since its formation, August 1, 2000. The Company is required to consolidate Euroball in its Consolidated Financial Statements due to its majority ownership. The Company owns 77% of the shares of the joint venture with the remaining minority partner owning the remaining 23%. Minority interest in consolidated subsidiary represents the combined interest in Euroball's earnings of the minority partners and the 49% interest in NN Arte's earnings of the minority partner (the 49% interest in NN Arte's earning is zero in 2002 and 2001). See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview".

Net Income. Net income increased $3.1 million, or 66.5% from $4.7 in 2001 to $7.8 million in 2002. As a percentage of net sales, net income increased from 2.6% in 2001 to 4.0% in 2002.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Net Sales. The Company's net sales increased $48.0 million or 36.3%, from $132.1 million in 2000 to $180.2 million in 2001. The inclusion of a full year of Euroball sales contributed $46.1 million of the increase, excluding the performance of the Ireland facility, which was consolidated into the results of the Company prior to the formation of Euroball. Additionally, the inclusion of 10.5 months of Delta's net sales in 2001 contributed $14.0 million. Offsetting this increase were decreased sales in the Domestic Ball and Roller and Plastics Segments in the last half of the year due to slowing demand related to the overall economic environment in the United States. Decreased sales during the year for the Plastics Segment were due to the economic environment as well as significantly decreased sales to one customer.

Gross Profit. Gross profit increased by $4.7 million, or 12.4% from $38.2 million in 2000 to $42.9 million in 2001. Adjusting for the performance of the Ireland facility, the Euroball joint venture contributed an additional $10.4 million of gross profit. The inclusion of 10.5 months of Delta's results contributed an additional $3.3 million in gross profit, while the sales volume deterioration in the Domestic Ball and Roller and Plastics Segments decreased gross profit $9.0 million. Gross profit decreased from 28.9% of net sales in 2000 to 23.8% of net sales in 2001.

Restructuring and Impairment Costs. Restructuring and impairment costs increased by $2.3 million from $0.0 million in 2000 to $2.3 million in 2001. The increase includes a $1.1 million charge for the recording of impairment on the Company's manufacturing facility located in Walterboro, South Carolina, a $0.8 million charge related to employee severance costs related to the closing of the Walterboro, South Carolina facility and a $0.4 million charge related to Euroball. Restructuring and impairment costs were 1.3% of net sales during 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $5.2 million, or 44.8% from $11.6 million in 2000 to $16.8 million in 2001. The inclusion of a full year of Euroball results, adjusting for the Ireland facility, accounted for $3.5 million of the increase. The inclusion of 10.5 months of Delta's results accounted for $1.2 million of the increase. Additionally, bad debt expense related primarily to the bankruptcy filing of a major Plastics Segment customer contributed $0.8 million. Offsetting these increases were decreased spending related to cost reduction and cost containment efforts throughout the Company. As a percentage of net sales, selling, general and administrative expenses increased from 8.8% in 2000 to 9.3% in 2001.

Depreciation and Amortization. Depreciation and amortization expenses increased $4.0 million, or 43.5% from $9.2 million in 2000 to $13.2 million in 2001. The inclusion of a full year of Euroball results, adjusting for the Ireland facility, accounted for $2.8 million of the increase. The inclusion of 10.5 months of Delta's results accounted for $1.1 million of the increase. As a percentage of net sales, depreciation and amortization increased from 6.9% in 2000 to 7.3% in 2001.

Interest Expense. Interest expense increased by $2.4 million from $1.8 million in 2000 to $4.2 million in 2001. Interest expense related to the purchase of Delta accounted for $1.0 million of the increase. Additionally, the inclusion of a full year of interest expense related to the debt incurred by Euroball accounted for approximately $1.2 million of the increase. As a percentage of net sales, interest expense increased from 1.3% in 2000 to 2.3% in 2001. See "Management's Discussion and Analysis of Financial Condition - Liquidity and Capital Resources."

Equity in Earnings of Unconsolidated Affiliates. Equity in earnings of unconsolidated affiliates decreased $0.05 million from $0.05 million in 2000 to $0. The decrease is due to the Company's share of earnings from the NN General joint venture with General Bearing Corporation. Effective December 21, 2001, the Company sold its minority interest in Jiangsu General Ball & Roller Company, LTD, a Chinese ball and roller manufacturer located in Rugao City, Jiangsu Province, China. To effect the transaction, the Company sold its 50% ownership in NN General, LLC, which owns a 60% interest in the Jiangsu joint venture to its partner, General Bearing Corporation for cash of $0.6 million and notes of $3.3 million. In 2001, the Company recorded a non-cash after-tax loss on the sale of its investment in this joint venture of $144,000. See Note 5 of the Notes to Consolidated Financial Statements for additional financial information.

Net Gain on Involuntary Conversion. The Company had a net gain on involuntary conversion of $3.9 million in 2001 related to insurance proceeds as a result of the March 12, 2000 fire at the Erwin facility.

Minority Interest in Consolidated Subsidiary. Minority interest of consolidated subsidiary increased $1.1 million from $0.7 million in 2000 to $1.8 million in 2001. This increase is due entirely to the Euroball joint venture which has been consolidated since its formation, August 1, 2000. The Company is required to consolidate Euroball in its Consolidated Financial Statements due to its majority ownership. The Company owns 54% of the shares of the joint venture with the minority partners owning the remaining 46%. Minority interest in consolidated subsidiary represents the combined 46% interest in Euroball's earnings of the minority partners and the 49% interest in NN Arte's earnings of the minority partners (the 49% interest in NN Arte's earning is zero in 2001 and 2000).

Net Income. Net income decreased $5.3 million, or 53.3%, from $10.0 million in 2000 to $4.7 million in 2001. As a percentage of net sales, net income decreased from 7.6% in 2000 to 2.6% in 2001.

Liquidity and Capital Resources

In July 2000, NN Euroball ApS, and its subsidiaries entered into a loan agreement with HypoVereinsbank Luxembourg S.A. as agent for Bayerische Hypo-und Vereinsbank AG of Munich, Germany for a senior secured revolving credit facility of Euro 5.0 million, expiring on July 15, 2006 and a senior secured term loan facility of Euro 36.0 million, expiring on July 15, 2006. On July 31, 2000, upon closing of the joint venture, NN Euroball ApS borrowed a total of Euro 31.5 million against these facilities for acquisition financing. Additional working capital and capital expenditure financing are provided for under the facility. Amounts outstanding under the facilities accrue interest at a floating rate equal to EURIBOR (2.87% at December 31, 2002) plus an applicable margin of between 0.8% to 2.25% based upon calculated financial ratios. The loan agreement contains various restrictive financial and non financial covenants. Restrictive covenants which specify, among other things, restrictions on the incurrence of indebtedness and the maintenance of certain financial ratios. These facilities also include certain negative pledges. Amounts outstanding under the Facility Agreement are secured by the stock, inventory and accounts receivable of Euroball ApS. Euroball was in compliance with all such covenants at December 31, 2002. At December 31, 2002, Euro 9.8 million was available to Euroball under these facilities.

On July 20, 2001, the Company entered into a syndicated loan agreement with AmSouth Bank ("AmSouth") as the administrative agent for the lenders, for a senior non-secured revolving credit facility of up to $25 million, expiring on July 25, 2003 and a senior non-secured term loan for $35 million expiring on July 1, 2006. On July 12, 2002, the Company amended this credit facility to convert the term loan portion in to 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 will be reduced by $7.0 million per annum and the facility will expire on July 1, 2006. 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 bear interest at a floating rate equal to LIBOR (1.38% at December 31, 2002) 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 a minimum fixed charge coverage ratio, a minimum funded indebtedness to EBITDA ratio and a maximum funded indebtedness to capitalization ratio 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. The Company's ownership in NN Euroball ApS has been pledged as collateral. The Company was in compliance with all such covenants as of December 31, 2002.

We are in the process of renegotiating our existing credit facilities. We expect to have the new facilities in place early during the second quarter of 2003. Prior to entering into the new loan agreements, we expect to obtain short-term working capital financing from our existing lender of approximately $3.5 million.

To date, cash generated by Euroball and its subsidiaries has been used exclusively for general Euroball-specific purposes including investments in property, plant and equipment and prepayment of the Euroball senior secured term loan, which is secured by Euroball and its subsidiaries. Accordingly, no dividends have been declared or paid that may have been used by the Company to pay down our domestic credit facilities. While the Company controls the declaration of such dividends, we would only receive cash distributed in accordance with our ownership percentage in Euroball.

The Company's arrangements with its domestic customers typically provide that payments are due within 30 days following the date of the Company's shipment of goods, while arrangements with foreign customers (other than foreign customers that have entered into an inventory management program with the Company) generally provide that payments are due within 90 or 120 days following the date of shipment. Under the Domestic Ball and Roller Segments inventory management program with certain European customers, payments typically are due within 30 days after the customer uses the product. The Company's sales and receivables can be influenced by seasonality due to the Company's relative percentage of European business coupled with many foreign customers ceasing production during the month of August. For information concerning the Company's quarterly results of operations for the years ended December 31, 2002 and 2001, see Note 16 of the Notes to Consolidated Financial Statements.

The Company bills and receives payment from some of its foreign customers in Euro as well as other currencies. To date, the Company has not been materially adversely affected by currency fluctuations or foreign exchange restrictions. Nonetheless, as a result of these sales, the Company's 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 December 31, 2002, no currency hedges were in place. In addition, a strengthening of the U.S.

dollar and/or Euro against foreign currencies could impair the ability of the Company to compete with international competitors for foreign as well as domestic sales.

Working capital, which consists principally of accounts receivable and inventories, was $21.2 million at December 31, 2002 as compared to $23.1 million at December 31, 2001 and $30.0 million at December 31, 2000. The ratio of current assets to current liabilities decreased from 1.89:1 at December 31, 2000 to 1.71:1 at December 31, 2001 and to 1.53:1 at December 31, 2002. Cash flow from operations increased to $31.1 million during 2002 from $24.6 million during 2001 and $26.9 million during 2000.

During 2003, the Company plans to spend approximately $9.4 million on capital expenditures related primarily to equipment and process upgrades and replacements. The Company intends to finance these activities with cash generated from operations and funds available under our credit facilities, which are in the process of renegotiation. The Company believes that funds generated from operations and borrowings from the renegotiated credit facilities will be sufficient to finance the Company's working capital needs and projected capital expenditure requirements through December 2003.

Beginning in January 2003 SKF may exercise its right under the Shareholders Agreement to cause the Company to purchase its interest in Euroball based on the Put Formula in the Shareholders Agreement. The Company anticipates that if such purchase becomes necessary, it may need to borrow additional funds. Because the purchase price is based on a formula using Euroball's historical earnings and cash flow, the exact amount of the put cannot be determined until the put right is exercised. SKF has informed us that it intends to exercise its right and we expect to purchase its interest during the second quarter of 2003.

The table below sets forth certain of the Company's contractual obligations and commercial commitments as of December 31, 2002:

Certain Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	Afte
Long-Term Debt	$ 46,135	$ --	$39,063	$7,072	
Operating Leases	$ 17,772	$ 1,422	$ 2,486	$1,952	
Other Long-Term Obligations	$ 62,180	$21,615	$40,565	$ --	
Total Contractual Cash Obligations	$ 126,087	$23,037	$82,114	$9,024	

Other Long-Term Obligations consist principally of steel purchase commitments at the Euroball Segment (See Note 15 of the Notes to Consolidated Financial Statements.)

The Euro

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

Seasonality and Fluctuation in Quarterly Results

The Company's net sales historically have been seasonal in 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. For information concerning the Company's quarterly results of operations for the years ended December 31, 2002 and 2001, see Note 16 of the Notes to Consolidated Financial Statements.

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.

Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." SFAS No. 133 and SFAS No. 138 require that derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000, which for the Company was effective January 1, 2001.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (Statement No. 141), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement No. 142). Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather, periodically tested for impairment. The effective date of Statement No. 142 is January 1, 2002. As of the date of adoption, 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 standards in the first quarter of 2002, the Company no longer amortizes goodwill. The Company estimates that amortization expense for goodwill would have been approximately $1.6 million (or $0.9 million net of tax and minority interest) for the twelve-month period ended December 31, 2002.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting For Asset Retirement Obligations." This Statement requires capitalizing any retirement costs as part of the total cost of the related long-lived asset and subsequently allocating the total expense to future periods using a systematic and rational method. Adoption of the Statement is required for fiscal years beginning after June 15, 2002. Management believes that, as of December 31, 2002, it is not materially affected by SFAS No. 143.

In October 2001, The FASB issued Statement of Financial Accounting Standards No. 144, "Accounting For The Impairment or Disposal of Long-lived Assets." This Statement supercedes Statement No. 121 but retains many of its fundamental provisions. Additionally, this Statement expands the scope of discontinued operations to include more disposal transactions. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of SFAS 144 did not have a material impact on the Company's financial condition.

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 are effective for transactions occurring after May 15, 2002. Management believes that, as of December 31, 2002, it is not materially affected by SFAS No. 145.

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

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 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. See Note 11 of the Notes to Consolidated Financial Statements.

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to changes in financial market conditions in the normal course of its business due to its use of certain financial instruments as well as transacting in various foreign currencies. To mitigate its exposure to these market risks, the Company has established policies, procedures and internal processes governing its management of financial market risks. The Company is exposed to changes in interest rates primarily as a result of its borrowing activities. Domestically, these borrowings which include a $25 million senior, non-secured floating rate revolving credit facility which is used to maintain liquidity and fund its business operations domestically as well as a reducing revolving credit line facility. In Europe, Euroball has a 5.0 million euro floating rate credit facility, and a 6.0 million euro floating rate secured term loan. At December 31, 2002, the Company had $48.1 million outstanding under the domestic revolving credit facility and Euroball had 5.0 million euro outstanding under the Euroball credit facility. A one-percent increase in the interest rate charged on the Company's outstanding borrowings under both credit facilities would result in interest expense increasing by approximately $531,000 during 2002 and $547,000 during 2001. In connection with a variable EURIBOR rate debt financing in July 2000 the Company's 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 the Company to receive variable Euribor interest payments and pay 5.51% fixed interest. The interest rate swap agreement expires in July 2006 and the notional amount amortizes in relation to principal payments on the underlying debt over the life of the swap. The nature and amount of the Company's borrowings may vary as a result of future business requirements, market conditions and other factors.

Translation of the Company's operating cash flows denominated in foreign currencies is impacted by changes in foreign exchange rates. The Company, mainly at its Euroball Segment, bills and receives payment from some of its foreign customers in their own currency. To date, the Company has 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. The Company did not hold a position in any foreign currency hedging instruments as of December 31, 2002.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

Financial Statements

Independent Auditors' Report

The Board of Directors
NN, Inc.:

We have audited the accompanying consolidated balance sheets of NN, Inc. as of December 31, 2002, 2001 and 2000 and the related consolidated statements of income and comprehensive income, consolidated statements of changes in stockholders' equity, and consolidated statements of cash flows for each of the years in the three year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NN, Inc. as of December 31, 2002, 2001 and 2000 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002 and changed its method of accounting for derivative instruments and hedging activities in 2001.

As discussed in Note 1 to the consolidated financial statements, the Company has restated its consolidated financial statements as of and for the years ended December 31, 2002, 2001 and 2000.

/s/ KPMG LLP

Charlotte, North Carolina
February 24, 2003, except as to Note 1,
which is as of January 29, 2004

NN, Inc.
Consolidated Balance Sheets
December 31, 2002, 2001 and 2000
(In thousands, except per share data)

	Restated 2002	R
Assets		

Current assets:	
Cash and cash equivalents	$ 5,144
Accounts receivable, net	28,965
Inventories, net	23,402
Other current assets	2,501
Current deferred tax asset	1,400
Total current assets	61,412
Property, plant and equipment, net	88,199
Assets held for sale	2,214
Goodwill	39,374
Other non-current assets	4,016
Non-current deferred tax asset	